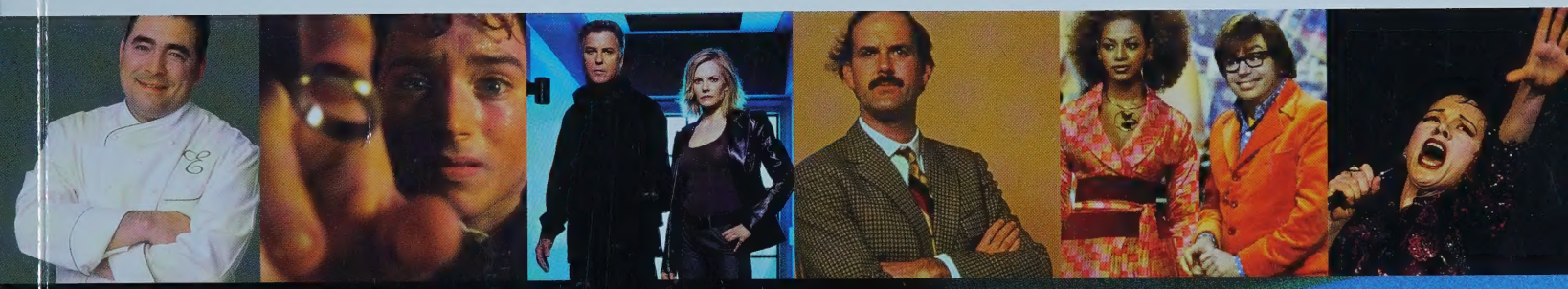
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ALLIANCE ATLANTIS

2002 ANNUAL REPORT



THE BUSINESS OF ENTERTAINMENT

CORPORATE PROFILE

Alliance Atlantis Communications Inc. ("Alliance Atlantis" or the "Company") is a leading vertically integrated Canadian television broadcaster, creator and international distributor of filmed entertainment content with significant ownership interests in the Canadian specialty broadcast industry.

For the 12-month period ended March 31, 2002, the Company reported revenues of $959.9 million, EBITDA* of $176.7 million excluding Developing Channels operating losses, EBITDA of $159.7 million including Developing Channels operating losses, net earnings of $47.3 million, and diluted earnings of $1.19 per share. At fiscal year end, the Company's asset base totalled $1.7 billion, supported by approximately $575.1 million of shareholders' equity. Alliance Atlantis Common Shares are listed on the TSX – trading symbol AAC.A, AAC.B – and on the NASDAQ – trading symbol AACB.

The Company's principal business activities are conducted through three Operating Groups: the Broadcast Group, the Motion Picture Distribution Group and the Entertainment Group.

Headquartered in Toronto, Alliance Atlantis operates offices in Los Angeles, London (United Kingdom), Montreal, Dublin and Shannon (Ireland), Edmonton, Halifax, and Sydney (Australia).

*FOR A RECONCILIATION OF THIS MEASURE TO NET EARNINGS, REFER TO MANAGEMENT'S DISCUSSION AND ANALYSIS ON PAGE 29.



ON THE COVER
LEFT TO RIGHT

- Chef Emeril Lagasse on Food Network Canada
- Elijah Wood in box office blockbuster *The Lord of the Rings: The Fellowship of the Ring*
- William Peterson and Marg Helgenberger in *CSI: Crime Scene Investigation*, the most watched drama series on U.S. television, airing on CBS
- John Cleese in *Fawlty Towers* on BBC Canada
- Beyoncé Knowles and Mike Myers, stars of *Austin Powers in Goldmember*
- Judy Davis starring in the award-winning *Life with Judy Garland: Me and My Shadows*

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FINANCIAL HIGHLIGHTS

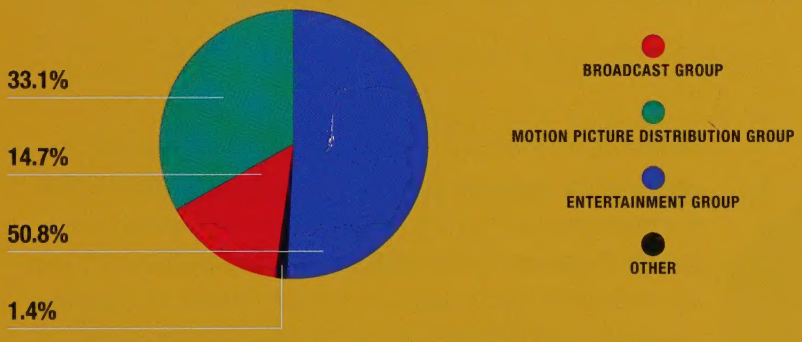
Condensed Consolidated Statements of Earnings

AUDITED
IN MILLIONS OF CANADIAN DOLLARS EXCEPT PER SHARE AMOUNTS
FOR THE YEARS ENDED MARCH 31,

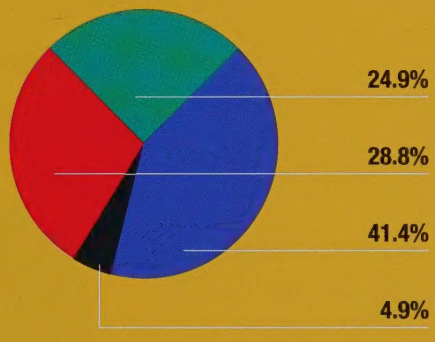
	2002	2001	Change
Revenue	**959.9**	806.1	+19.1%
Gross profit	**276.3**	225.8	+22.4%
Operating expenses	**116.6**	92.2	+26.5%
EBITDA (excluding Developing Channels operating losses)	**176.7**	139.0	+27.1%
EBITDA (including Developing Channels operating losses)	**159.7**	133.6	+19.5%
Net earnings	**47.3**	35.0	+35.1%
Earnings per Common Share			
Basic	**$ 1.20**	$ 1.10	+9.1%
Diluted	**$ 1.19**	$ 1.09	+9.2%
Weighted average Common Shares outstanding (millions)			
Basic	**39.6**	31.7	+24.9%
Diluted	**40.2**	32.3	+24.5%

2002 Segmented Information

Revenue $959.9 million



Gross Profit $276.3 million



Condensed Consolidated Balance Sheets

AUDITED
IN MILLIONS OF CANADIAN DOLLARS
AS AT MARCH 31,

	2002	2001
Cash, accounts and other receivables	**366.5**	496.1
Investment in film and television programs	**718.0**	830.1
Development costs	**30.4**	47.4
Broadcast licences	**110.4**	74.5
Other	**493.5**	320.8
	1,718.8	1,768.9
Senior revolving credit facility	**97.9**	73.9
Accounts and other payables	**477.4**	390.1
Deferred revenue	**32.7**	151.9
Convertible debentures	**8.8**	8.8
Senior subordinated notes	**477.0**	474.0
Minority interest and other	**49.9**	71.6
Shareholders' equity	**575.1**	598.6
	1,718.8	1,768.9

EBITDA**

IN MILLIONS OF CANADIAN DOLLARS
FOR THE YEARS ENDED MARCH 31,

	2002	2001
Broadcast Group – Operating Channels	**52.8**	46.2
Motion Picture Distribution Group	**51.5**	28.9
Entertainment Group	**89.9**	72.1
Other	**(17.5)**	(8.2)
	176.7	139.0
Broadcast Group – Developing Channels	**(17.0)**	(5.4)
	159.7	133.6

**EBITDA IS DEFINED AS EARNINGS BEFORE INTEREST, INCOME TAXES, AMORTIZATION, MINORITY INTEREST, EQUITY INTEREST IN AFFILIATES, INVESTMENT GAINS AND RESTRUCTURING CHARGES. EBITDA IS USED BY THE COMPANY TO MEASURE ITS OPERATING PERFORMANCE, INCLUDING ITS ABILITY TO GENERATE CASH FLOW. EBITDA AND RELATED MEASURES MAY OR MAY NOT BE CONSISTENT WITH THE CALCULATION OF SIMILAR MEASURES FOR OTHER COMPANIES, AND SHOULD NOT BE VIEWED AS ALTERNATIVES TO NET EARNINGS OR OTHER MEASURES OF PERFORMANCE CALCULATED IN ACCORDANCE WITH CANADIAN GENERALLY ACCEPTED ACCOUNTING PRINCIPLES.

WHO WE ARE

Alliance Atlantis conducts its principal business activities through three Operating Groups:

BROADCAST GROUP



Alliance Atlantis is one of Canada's most dynamic television broadcasters, with ownership in 18 specialty cable channels, consisting of controlling ownership of five established analog channels and seven digital channels; a 50% interest in two French-language analog channels; and a minority interest in four other channels – one analog and three digital. During fiscal 2002, the Company launched seven digital channels. Our channels each carry a strong strategic brand, have access to a plentiful supply of high quality content and align with one of our three core genres: lifestyle, drama and documentary.

MOTION PICTURE DISTRIBUTION GROUP



Alliance Atlantis is a leading Canadian distributor of motion pictures, and our wholly owned subsidiary Momentum Pictures is a growing force in motion picture distribution in the United Kingdom. The motion pictures are released theatrically, distributed through video and DVD sales and licenced to broadcast customers. During fiscal 2002, the Company released 83 theatrical motion pictures, 192 videos and 200 DVDs in Canada, and 14 theatrical motion pictures, 52 videos and 61 DVDs in the U.K. We also operate Alliance Atlantis Cinemas, a 24-screen chain of upscale cinemas in Canada in partnership with Famous Players, a subsidiary of Viacom, Inc.

ENTERTAINMENT GROUP



Alliance Atlantis is a leading producer and worldwide distributor of television programs and a small number of feature films. Our productions are licenced to Canadian, American and international broadcasters and subdistributors, and also service some of the content needs of the Company's other Operating Groups. Our productions include documentary and kids' programming, primetime television drama, as well as theatrical motion pictures. One of the shows we co-produce is *CSI: Crime Scene Investigation*, the most watched drama series on U.S. television.

STRATEGY IN ACTION

THIS IS WHAT WE DO BEST: Alliance Atlantis is a vertically integrated entertainment company, with each of our three Operating Groups striving to deliver strong results and a solid return to shareholders. For over 20 years, we have consistently recognized, nurtured and delivered high quality, commercially appealing content. From a position of strength in our home Canadian market, we leverage our expertise and global insight in markets around the world.

We have three key strategies – achieving financial strength; executing with discipline; and seizing opportunities – that we discuss in the coming pages.

We outline the specific strategies and achievements of our Operating Groups as follows: • Broadcast Group 14 • Motion Picture Distribution Group 18 • Entertainment Group 22.

STRATEGY

1

ACHIEVING FINANCIAL STRENGTH

DURING THE PAST YEAR, Alliance Atlantis has significantly strengthened its balance sheet. The Company completed a public offering in the U.S., Canada and Europe of 8.0 million Class B Non-Voting Shares to generate gross proceeds of approximately $138.4 million, which were applied to reduce short-term debt. With the Company's senior subordinated notes not due until December 2009 and senior revolving credit facility not due until January 2006, our financial position and liquidity are stronger than ever before. We are therefore well positioned both to take advantage of business opportunities and to withstand economic volatility.

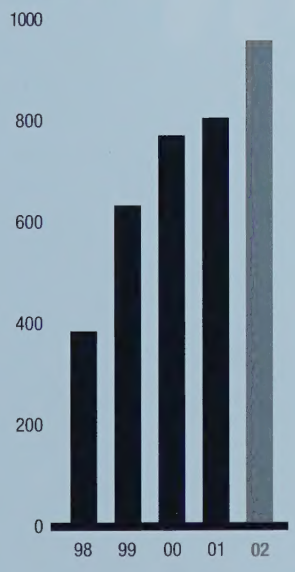
FIVE YEAR CONDENSED CONSOLIDATED STATEMENT OF EARNINGS

IN MILLIONS OF CANADIAN DOLLARS EXCEPT PER SHARE AMOUNTS FOR THE YEARS ENDED MARCH 31,	**2002**	2001	2000	1999*	1998*
Revenue	**959.9**	806.1	771.6	633.4	385.2
Gross profit	**276.3**	225.8	179.2	130.7	82.6
Operating expenses	**116.6**	92.2	73.0	71.4	51.3
EBITDA (excluding Developing Channels operating losses)	**176.7**	139.0	106.2	59.3	31.3
EBITDA (including Developing Channels operating losses)	**159.7**	133.6	106.2	59.3	31.3
Net earnings (loss)	**47.3**	35.0	39.1	(27.3)	19.9
Earnings per Common Share					
Basic	**$ 1.20**	$ 1.10	$ 1.31	$ (1.44)	$ 1.38
Diluted	**$ 1.19**	$ 1.09	$ 1.25	$ (1.44)	$ 1.28
Weighted average Common Shares outstanding (millions)					
Basic	**39.6**	31.7	28.2	20.4	14.4
Diluted	**40.2**	32.3	30.4	20.4	16.7

*IN SEPTEMBER 1998, ALLIANCE COMMUNICATIONS CORPORATION AND ATLANTIS COMMUNICATIONS INC. MERGED TO FORM ALLIANCE ATLANTIS COMMUNICATIONS INC.

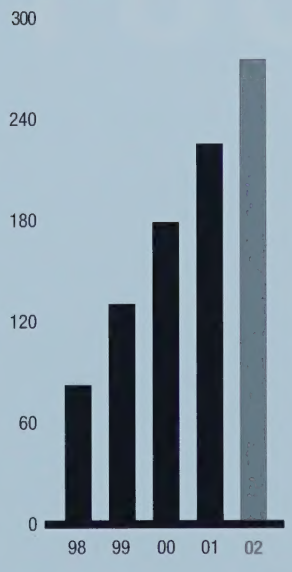
ACTION

Revenue



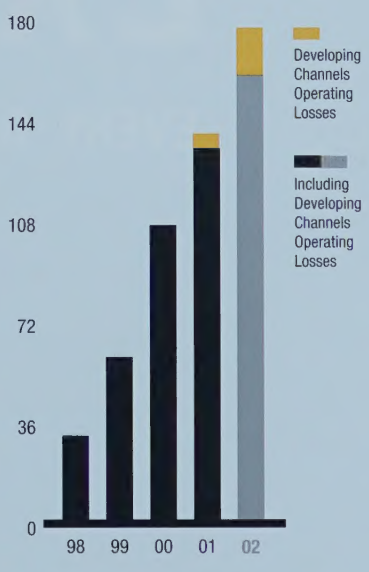
The Company reported $959.9 million of consolidated revenues in fiscal 2002 – up 19% compared to the prior fiscal year. All three of the Company's Operating Groups contributed to this revenue growth as follows: Broadcast Group – Operating Channels +19%; Motion Picture Distribution Group +57%; and Entertainment Group +4%.

Gross Profit



The Company reported $276.3 million of consolidated gross profit in fiscal 2002 – up 22% compared to the prior fiscal year. Consolidated gross margin for the year was 29% compared to 28% in the prior fiscal year. Operating Group gross margin for fiscal 2002 as compared to fiscal 2001 is as follows: Broadcast Group – Operating Channels 59%/58%; Motion Picture Distribution Group 22%/22%; and Entertainment Group 23%/21%.

EBITDA



The Company reported EBITDA (excluding Developing Channels operating losses) of $176.7 million – up 27% compared to the prior fiscal year. EBITDA (including Developing Channels operating losses) was $159.7 million in fiscal 2002 – up 20% compared to the prior fiscal year. Consolidated EBITDA margin (excluding Developing Channels operating losses) was 19% in fiscal 2002 compared to 17% in the prior fiscal year. Operating Group EBITDA margin for fiscal 2002 as compared to fiscal 2001 is as follows: Broadcast Group – Operating Channels 41%/42%; Motion Picture Distribution Group 16%/14%; and Entertainment Group 18%/15%.

STRATEGY

2

DISCIPLINED EXECUTION

EVERY DAY our people make decisions about how to implement our strategies in order to deliver solid returns. In every decision we maintain a keen focus on our objectives, we strive to maximize our efficiency, and we ensure delivery of a quality product in all areas of our business.

Investing in growth businesses

We launched seven digital specialty cable channels in Canada during the year: Showcase Action, Showcase Diva, IFC – The Independent Film Channel Canada, Discovery Health Channel, BBC Canada, BBC Kids and National Geographic Channel. Our digital channel strategy hinges on leveraging strong, well established brands with access to a plentiful supply of high quality content, and initial results endorse this approach – among adults 25–54, six of the new Alliance Atlantis channels currently rank in the top 20 new digital channels, with three of them in the top 10.

Growing in strategic markets

In just its second full year of operation, our wholly owned, U.K.-based motion picture distribution subsidiary Momentum Pictures continues to deliver impressive results. Our local management has leveraged both our motion picture product and our video/DVD library rights, along with broadcast sales, into stellar revenue growth and increasing profitability.

Exploiting our market expertise

When we released *The Lord of the Rings: The Fellowship of the Ring* in theatres in Canada, we combined our knowledge of the Canadian marketplace with our marketing and publicity strength to release what has become the second-highest grossing film in Canadian history. Our box office results for *The Lord of the Rings* have now surpassed $53 million – representing 17% of the North American market, a disproportionately greater share than Canada's actual market size. We frequently deliver box office returns that outpace Canada's "natural" North American market share of approximately 10%, and these results continue to make an important contribution to the strength of our relationships with our motion picture partners.

ACTION

Reorganizing for efficiency

We moved to consolidate our in-house television and motion picture production and related distribution activities into one Operating Group – the recently created Entertainment Group. This strategic decision allows us to reap the operating and financial synergies that arise from combining the talents of people skilled in both TV and motion picture development, production, financing, distribution and marketing. As a result of this move, we expect to generate operating cost savings of at least $7.0 million on an annualized basis beginning in fiscal 2003.

Producing winners

Alliance Atlantis co-produces what is now the most watched drama series on U.S. television, *CSI: Crime Scene Investigation*, which has achieved weekly audience levels that have repeatedly topped the 25 million mark. We have been successful at licencing *CSI* internationally, where it is enjoying ratings success in key markets. On the strength of *CSI*'s success, together with our partner, CBS Productions, we are moving ahead with a *CSI* spin-off series, *CSI: Miami*. Both the original *CSI* and *CSI: Miami* are featured in the CBS schedule for fall 2002.

Reducing investment in high cost production

In an effort to continue improving the overall margin and profitability related to our production activities, we are carrying out our commitment to reduce the output of higher cost primetime television drama hours, to limit the number and size of in-house motion picture productions and to decrease the amount of capital invested in both of these activities. This has allowed us to realign our production efforts to provide a more balanced menu of new productions across several genres (documentary, kids, drama and comedy), better align our operations with changing market conditions, and free up capital for investment in future Broadcast Group initiatives.

STRATEGY

3

SEIZING OPPORTUNITIES

THE ABILITY TO SEE AHEAD, to anticipate changes in our business and our environment and to take decisive action – this approach, more than anything else, has allowed us to transform Alliance Atlantis into the leading vertically integrated entertainment business it is today. Throughout our history, we have evolved and expanded our focus from our initial emphasis on production to now encompass broadcasting and motion picture distribution. We continue to seize opportunities today to secure a solid future.



Broadcast Group SEE PAGE 14

Deepening relationships with distribution partners We're looking for new ways to expand our relationships with Canadian satellite and cable operators.

Continuing to align with our distribution and production businesses Our programmers work closely with the production and distribution arms of the business to secure access to attractive content.

Selectively growing our broadcast presence We will focus on growing our seven new digital channels, as well as assessing the broadcast landscape with a view to launching additional digital channels as and when appropriate.

Demonstrating leadership in programming We are enhancing the innovative programming on our channels even further in fiscal 2003, looking to secure more of the best available Canadian and international programs.

ACTION

Motion Picture Distribution Group SEE PAGE 18

Strengthening existing partnerships We continue to work closely with our distribution partners, with whom we have long-term relationships, to ensure we deliver maximum returns for them and for us with each release.

Expanding distribution opportunities Although video-on-demand technology is relatively new, we are among the first to move ahead with providing content to broadcast distribution partners as they look to launch this service in Canada.

Maximizing our release slate We will capitalize on the strong results of our fiscal 2002 theatrical releases through video and DVD releases, as well as maximizing this fiscal year's box office receipts from powerful franchise films like *The Lord of the Rings: The Two Towers.*



The Lord of the Rings: The Two Towers

Entertainment Group SEE PAGE 22

Continuing focus on margin improvement By reducing our production of higher cost dramas and focusing instead on higher margin production, we improved margins in fiscal 2002, a trend we anticipate continuing in fiscal 2003 and beyond.

Licencing *CSI* internationally With *CSI: Crime Scene Investigation* already licenced in more than 65 countries, we will continue to expand those sales efforts into new markets, while beginning to licence the new spin-off series *CSI: Miami* in all markets.

Building market penetration A number of key projects, including successful television programs like *CSI* and multi-award winning event mini-series like *Nuremberg*, raised our profile in international markets, and we are looking to sustain this momentum and further enhance our reputation as one of the world's leading independent producers and distributors.

Leveraging technology We will continue to use technology to improve quality, reduce costs, maximize efficiency and increase creativity.



David Caruso starring in *CSI: Miami*



CHAIRMAN AND
CHIEF EXECUTIVE OFFICER

FISCAL 2002 SAW ALLIANCE ATLANTIS DELIVER

very strong financial results and record important contributions and achievements from each of our Operating Groups. As important, we have made significant progress in strengthening our balance sheet to ensure that we have long-term financial flexibility.

During the year, we successfully completed a public offering in the United States, Canada and Europe of 8.0 million Class B Non-Voting Shares, which resulted in gross proceeds of $138.4 million. The offering was oversubscribed and attracted new investors. This further diversification of our shareholder base has resulted in improved liquidity in the stock and may generate further interest from new investors. The proceeds were used to repay indebtedness under our committed senior revolving credit facility. The resulting increased credit available under this facility has been used for general corporate purposes, including the launch of seven digital specialty cable channels, along with other broadcast investments.

KEY INITIATIVES

Broadcast Group

One of our key initiatives for growth has been the continued expansion of our broadcast business. We launched seven digital specialty cable channels during the fiscal year, and they are performing within our expectations and according to our plan – that is, we anticipate initial start-up losses, but we are also encouraged that our digital channels generated $1.3 million of advertising revenue during the year. Early results show that our channels are meeting a receptive audience, with six currently ranking within the top 20 digital channels and three within the top 10 among adults 25–54.

In fiscal 2003 we will reclassify some of our channels. For fiscal 2002, our Operating Channels included Showcase, Life Network, History Television, HGTV Canada and Food Network Canada, while our Developing Channels included the French-language channels Historia and Series+, as well as our recently launched digital channels – Showcase Action, Showcase Diva, IFC – The Independent Film Channel Canada, Discovery Health Channel, BBC Canada, BBC Kids and National Geographic Channel. Commencing in fiscal 2003, Series+ and Historia will be included along with our existing Operating Channels.

Motion Picture Distribution Group

Thanks in part to an outstanding theatrical release slate – led by *The Lord of the Rings: The Fellowship of the Ring* – fiscal 2002 represented one of our best years ever for our motion picture distribution business.

We continue to have strong relationships with key providers of motion pictures – including New Line Cinema, Miramax Films, Artisan Entertainment and Universal Focus (formerly USA Films) – which are a key element in our ability to consistently deliver strong results from both theatrical and video/DVD releases, as well as content sales to our broadcast customers.

Of particular note were the successes enjoyed by two Canadian motion picture productions – *Men With Brooms* and *Atanarjuat The Fast Runner.* Spurred by an extremely successful marketing and publicity campaign, *Men With Brooms* has become the top grossing English-language Canadian film in the past two decades with over $4.1 million in Canadian box office receipts. The critically acclaimed film *Atanarjuat The Fast Runner*, the first ever Inuit-language feature film, surpassed the $1 million mark in Canadian box office receipts and continues to climb, an achievement of which we are especially proud.

Our demonstrated expertise has given us the confidence to pursue an aggressive growth strategy in the U.K. through our wholly owned motion picture distribution subsidiary Momentum Pictures, which recorded stellar revenue growth and increasing profitability over fiscal 2001.

"TELEVISION VIEWING WITHIN NORTH AMERICA HAS REMAINED CONSTANT – at an average of approximately 21 hours per week – for the past four decades, despite the addition of many new channels as well as the advent of the personal computer. This suggests that new channels divert audiences from existing players – translating into upside benefit with comparatively less downside risk for Alliance Atlantis given that we are a relatively new participant in the broadcast market. Our channels are today successfully attracting viewers away from more traditional broadcasters."

Entertainment Group

As part of our commitment to reduce the capital allocated to higher cost drama production activities, we consolidated all television and in-house motion picture production together with all related distribution activities within the recently created Entertainment Group. This initiative is expected to generate at least CDN$7.0 million of annualized cost savings beginning in fiscal 2003.

Our ability to capitalize on the "hit" status of *CSI: Crime Scene Investigation* has been an important achievement for Alliance Atlantis this year. Alliance Atlantis, through our international distribution network, has had tremendous success in licencing the broadcast rights of *CSI* to broadcasters around the world. For instance, in March 2001 we announced the U.S. second window sale of *CSI: Crime Scene Investigation* to TNN – The National Network, for an amount in excess of US$1.6 million per episode, which is regarded as a record fee for such rights. Alliance Atlantis – which shares worldwide revenues on a 50/50 basis with CBS Productions after certain third-party profit participations and residuals – is achieving continued success in international sales, with *CSI* now sold to more than 65 countries, including Canada, the U.K., France, Germany and Australia.

By the end of this television season, *CSI* had surpassed *ER* as the most watched drama series on U.S. television with weekly audiences that have repeatedly topped the 25 million mark. On the strength of that success, together with CBS, we are moving ahead with a *CSI* spin-off series, *CSI: Miami.* Both the original *CSI* and *CSI: Miami* are featured in the CBS schedule for fall 2002, and we have already experienced positive international interest in *CSI: Miami.*

ACQUISITIONS

During this fiscal year, Alliance Atlantis completed a number of transactions that support our strategies.

In April 2001, we completed the acquisition of Salter Street Films Limited, and we have achieved the expected synergies by combining our businesses. In December 2001, the Canadian Radio-television and Telecommunications Commission also approved our ownership of the new digital specialty channel IFC – The Independent Film Channel Canada, acquired as part of the Salter Street transaction.

In May 2001, we acquired a 29.9% ownership stake in One: The Body, Mind and Spirit Channel – previously called Wisdom. We also hold an option to increase our total equity interest to 36.0% of the channel.

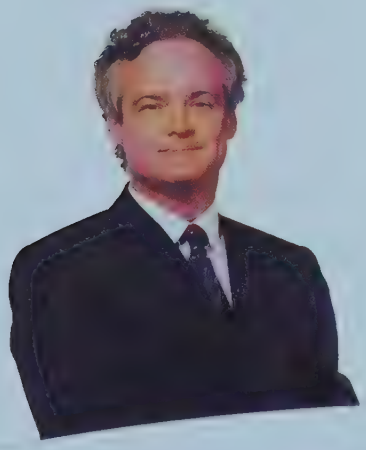
In keeping with our strategy to increase our investment in the Broadcast Group, we now own 100% of the specialty channel History Television, after acquiring the minority equity interest that we did not already own in January 2002.

BUSINESS ENVIRONMENT

The acceptance of digital television is a key factor in the continued evolution of our industry. Early results in Canada are positive and we continue to be optimistic that viewers will take up digital television at a steady rate. Some have speculated that the advent of so many new digital channels will reduce television viewing. In fact, television viewing within North America has remained constant – at an average of approximately 21 hours per week – for the past four decades, despite the addition of many new channels as well as the advent of the personal computer. This suggests that new channels divert audiences from existing players – translating into upside benefit with comparatively less downside risk for Alliance Atlantis given that we are a relatively new participant in the broadcast market. Our channels are today successfully attracting viewers away from more traditional broadcasters.

That said, competition for viewership is intense, and we believe we have two key advantages. First, our emphasis and focus on branding has allowed our channels to differentiate themselves and win audiences and advertisers. Second, despite the cliché, content remains king – and our experience and track record in recognizing, developing and nurturing outstanding content is more important than ever. Utilizing our strong brands and our appealing content, we've demonstrated the success of our model through impressive audience response, and in turn, solid advertising results.

It is impossible to discuss this fiscal year without some mention of the impact of the events of September 11, 2001 on our environment. Although there was much concern about the impact that an economic slowdown, exacerbated by the terrorist attacks, might have on the entertainment industry, for our part, those fears did not materialize. On the contrary, we experienced only a brief and temporary decline in television viewership for our channels and in theatrical attendance. In fact, we have seen an even stronger surge in movie attendance in the period since the aftermath of September 11, with Alliance Atlantis enjoying its best box office results ever, in part because people stayed closer to home. As well, advertising revenues in our Broadcast Group, which are directly driven by viewership, increased by 27% to $52.4 million in fiscal 2002.



W. Judson Martin
EXECUTIVE VICE PRESIDENT AND
CHIEF FINANCIAL OFFICER

"THE MEDIA LANDSCAPE IN CANADA AND AROUND THE WORLD continues to be one in which convergence strategies have had mixed results. For Alliance Atlantis, true convergence has simply been a natural result of our vertical integration strategy as broadcaster, distributor and producer of filmed entertainment content. We are benefiting today from the alignment of our Operating Groups' core businesses, and our results to date underline that our performance is and will continue to be a testament to this successful strategy."

Alliance Atlantis was proud to play a part in the acknowledgement and recognition of the role of Canadians following the September 11th terrorist attacks through our exclusive sponsorship of the Government of Canada's book *A Diary Between Friends*, and the Alliance Atlantis production of a companion documentary of the same name. The Alliance Atlantis documentary was broadcast in Canada on History Television, Life Network and Canal D to record audiences, and is scheduled to be shown in the fall of 2002 on PBS in the U.S. to mark the anniversary of these tragic events. All profits from the sale of the documentary and a portion of proceeds from the commercial sale of each book are being donated to charity.

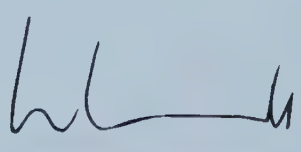
OUTLOOK FOR FISCAL 2003

Alliance Atlantis is poised for another successful year. We anticipate our broadcast expansion strategy will continue to bear fruit as our channels mature. A June 2002 Statistics Canada survey has reinforced our decision to expand into broadcasting through the launch of our first specialty channels in the mid 1990s. In 2001, specialty television reported revenues of $1.2 billion, up nearly 14% from the prior year. This represented more than one quarter – or 26.6% – of total television industry revenues, up from just 19% in 1998. The strongest growth in airtime sales occurred in the specialty segment, where sales jumped 15% to $438 million. This certainly bears out the growth that we have seen in both audience levels and advertising revenues from our Operating Channels, and we believe it is a strong leading indicator for the future of our Canadian digital specialty channels, or as we classify them, Developing Channels, during fiscal 2003. The outlook is also positive in our Motion Picture Distribution Group, where we have an outstanding slate of theatrical releases in fiscal 2003 through powerful franchise films like *Austin Powers in Goldmember*, *Spy Kids 2* and the second installment of *The Lord of the Rings* trilogy, *The Two Towers*, as well as highly anticipated films like Martin Scorsese's *Gangs of New York*. At the same time, much of the very successful theatrical slate released in fiscal 2002 will be distributed on video/DVD, and we expect equally strong performance in these formats. In the Entertainment Group, we continue to look for opportunities to drive margin improvement in our production business while continuing to leverage our existing library and maximize the increasing value of the *CSI* franchise.

The media landscape in Canada and around the world continues to be one in which convergence strategies have had mixed results. For Alliance Atlantis, true convergence has simply been a natural result of our vertical integration strategy as broadcaster, distributor and producer of filmed entertainment content. We are benefiting today from the alignment of our Operating Groups' core businesses, and our results to date underline that our performance is and will continue to be a testament to this successful strategy. Of course, we are constantly looking to seize emerging opportunities, and our focus will be to increase the presence, profile and performance of our three Operating Groups and to ensure that we reap the benefits of their natural synergies.

In my view, the key to our success at Alliance Atlantis has always been, and will continue to be, our ability to anticipate changes in our environment and be flexible enough to transform the organization to capitalize on opportunities. We believe that communicating our strategy and our successes will lead to improved stock performance. In this context, a strong and experienced management team has never been more important and we are fortunate to have outstanding talent and bench strength.

We have made some very important decisions this year to transform ourselves to meet competitive challenges. We have asked a lot of our employees; we've also had to say goodbye to some talented people. Alliance Atlantis has been fortunate in its ability to retain and attract top performers in its industry and the ongoing dedication and support of our staff has been an important factor in our success. I'd like to thank all of the Alliance Atlantis people who have contributed to our success this year. I would also like to thank our Board of Directors for their work on behalf of the Company and our shareholders for their commitment to our vision for the future.



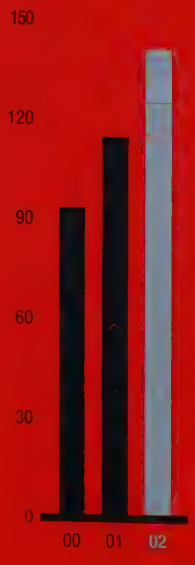
Michael I. M. MacMillan
CHAIRMAN AND CHIEF EXECUTIVE OFFICER

BROADCAST GROUP

PROFILE Alliance Atlantis is one of Canada's most dynamic television broadcasters, with ownership in 18 specialty cable channels, consisting of controlling ownership of five established analog channels and seven digital channels; a 50% interest in two French-language analog channels; and a minority interest in four other channels – one analog and three digital. During fiscal 2002, the Company launched seven digital channels. Our channels each carry a strong strategic brand, have access to a plentiful supply of high quality content and align with one of our three core genres: lifestyle, drama and documentary.

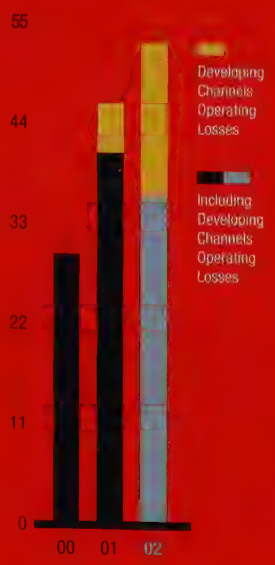
KEY MEASURES OF SUCCESS

Revenue



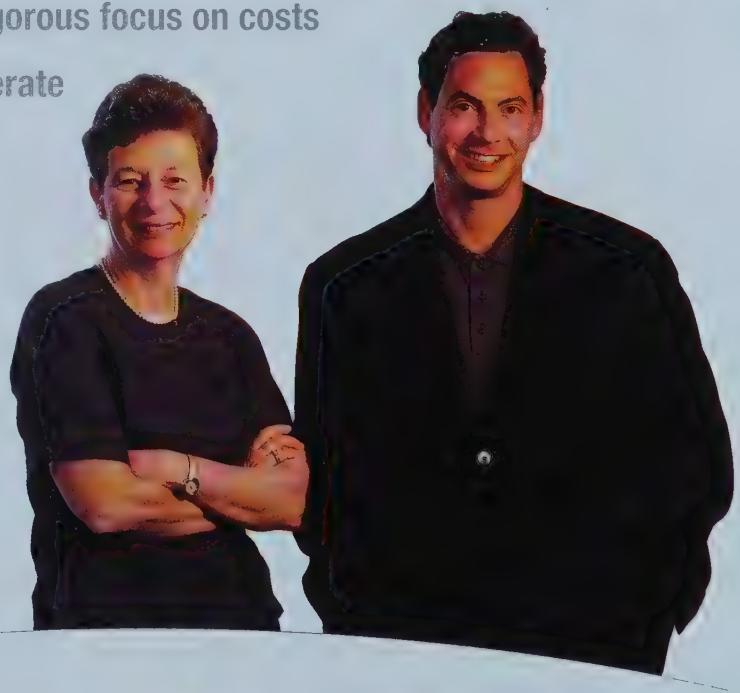
Broadcast Group – Operating Channels reported $129.8 million of revenues in fiscal 2002 – up 19% compared to fiscal 2001 and up 39% compared to fiscal 2000. Broadcast Group – Developing Channels reported $11.1 million of revenues in fiscal 2002 – up 118% compared to fiscal 2001, the first year in which Developing Channels generated revenues.

EBITDA



Broadcast Group – Operating Channels reported $52.8 million of EBITDA in fiscal 2002 – up 14% compared to fiscal 2001 and up 78% compared to fiscal 2000. Broadcast Group – Developing Channels reported an operating loss of $17.0 million in fiscal 2002 compared to a $5.4 million operating loss in the prior fiscal year.

OUR STRATEGY We are committed to expanding and growing our broadcast presence by focusing on three key areas: strong channel brands, innovative and high quality programming, and exceptional sales and marketing. All of our channels have well developed, recognized brands, which have distinguished them in an expanding digital universe. We drive viewership through exciting and innovative programming, working closely with the Motion Picture Distribution and Entertainment Groups to use their content where possible. Additionally, we apply our sales and marketing expertise to deliver key audiences to our advertisers, thereby generating growth in advertising sales. Underpinning our strategy is a rigorous focus on costs to ensure that we continue to operate at maximum efficiency.



Phyllis N. Yaffe
CHIEF EXECUTIVE OFFICER,
BROADCAST GROUP

Mark I. Rubinstein
PRESIDENT AND
CHIEF OPERATING OFFICER,
BROADCAST GROUP

SHOWCASE
SHOWCASE DIVA
SHOWCASE ACTION
theScore TELEVISION NETWORK
LIFE network
BBC CANADA
BBC Kids
THE INDEPENDENT FILM CHANNEL CANADA IFC
HISTORY TELEVISION
NATIONAL GEOGRAPHIC CHANNEL
HISTORIA
food NETWORK CANADA
Discovery Health CHANNEL
PRIDEVISION TV OUTSIDE THE BOX
HGTV HOME & GARDEN TELEVISION
one the Body, Mind & Spirit channel
SÉRIES+
SCREAM

HGTV AND HOME AND GARDEN TELEVISION ARE TRADEMARKS OF SCRIPPS NETWORKS, INC., USED WITH PERMISSION
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IFC – THE INDEPENDENT FILM CHANNEL CANADA IS A REGISTERED TRADEMARK OF IFC – THE INDEPENDENT FILM CHANNEL LLC, JERICHO, NEW YORK, USA AND IS USED UNDER LICENSE
NATIONAL GEOGRAPHIC CHANNEL AND THE YELLOW BORDER DESIGN ARE TRADEMARKS OF NATIONAL GEOGRAPHIC SOCIETY; USED WITH PERMISSION
© 2002 DISCOVERY COMMUNICATIONS INC. ALL RIGHTS RESERVED. DISCOVERY HEALTH CHANNEL AND LOGO MARKS ARE TRADEMARKS OF DISCOVERY COMMUNICATIONS, INC.

Launching new digital channels

This year, we launched seven well-branded digital specialty cable channels – Showcase Action, Showcase Diva, IFC – The Independent Film Channel Canada, Discovery Health Channel, BBC Canada, BBC Kids and National Geographic Channel – and have secured carriage agreements to reach approximately 91% of digital households in Canada. The early results show that our channels are meeting a receptive audience, with six currently ranking among the top 20 digital channels and three in the top 10 among adults 25–54.

Continuing Operating Channel growth

Our established Operating Channels – including Showcase, Life Network, History Television, HGTV Canada and Food Network Canada – continue to deliver very strong results. During fiscal 2002, advertising revenues from our Operating Channels grew 23.8% year-over-year, and our ratings continue to show solid growth.

ACTIONS

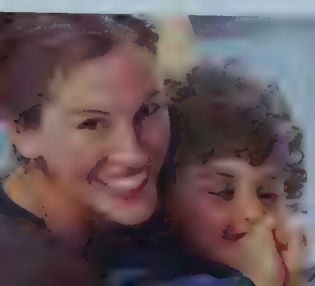
Building on brand strength

Our channel brands are among the best in the world. These brands are supported by the right programming, designed to attract appropriate audiences and advertisers. These brands also align with the rich content available from our ongoing production and acquisition efforts and the Alliance Atlantis motion picture and television library. We demonstrated this brand strength in the recent launch of two movie/drama channels that were successfully spun off from our well recognized Showcase brand – Showcase Action and Showcase Diva.

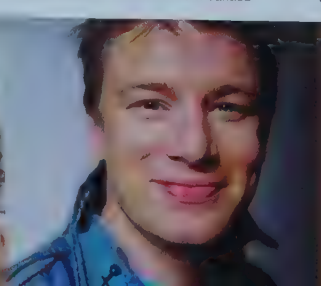
Leading in marketing and sales execution

In a year when many observers expected advertising revenues to decline, we delivered exceptional results, with total advertising revenue from both Operating and Developing Channels up 27.2% over the last fiscal year. We have an exceptionally strong sales team which consistently provides clients with effective and innovative solutions. Because of the strength and variety of audiences that are attracted to our channel brands and high quality content, we are able to offer advertisers a wide array of solutions to reach key audiences.

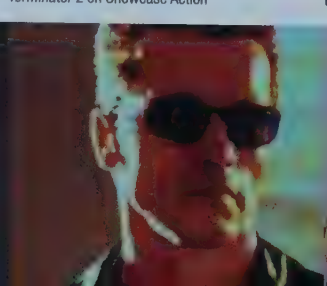
Silent Angels: The Rett Syndrome Story on Discovery Health Channel



The Naked Chef on Food Network Canada



Terminator 2 on Showcase Action



Queer as Folk on Showcase



Debbie Travis' Facelift on HGTV Canada



"Our channel brands are among the best in the world. These brands are supported by the right programming, designed to attract appropriate audiences and advertisers."

Deepening relationships with distribution partners

We have strong relationships with our distribution partners in Canada – including Bell ExpressVu, Starchoice, Shaw, Rogers, Videotron, Cogeco and others – and we continue to seek opportunities to work together for our mutual success. Beyond the strong carriage agreements we have in place today, we are also alert to new possibilities, such as video-on-demand.

Selectively growing our broadcast presence

We successfully launched seven digital channels in fiscal 2002, and our focus will continue to be on growing the audience and profile of each channel. We continue to assess the broadcast landscape with a view to launching additional digital channels as and when appropriate, using our successful formula of combining strong branding, innovative programming that leverages content within the Alliance Atlantis library and existing state-of-the-art infrastructure. We continue to survey and analyze the broadcast environment for opportunities that align with our growth strategy.

OPPORTUNITIES

Demonstrating leadership in programming

Our brands have allowed us to attract strong audience levels, and our innovative programming has helped us to grow viewership on our channels. By seeking out and delivering high quality programming from around the world – including *Nigella Bites* and Michael Smith's *Chef at Large* on Food Network Canada, *Queer as Folk* and season one of HBO's *Curb Your Enthusiasm* on Showcase, Canada's *Designer Guys* on HGTV Canada and *Quest for the Bay* on History Television – our programming has consistently delivered the kind of audience support that successfully attracts advertisers. Going forward, we will continue to seek ways in which to further enhance our reputation for excellent programming, bringing more of the best of Canadian and international television to our audiences.

Continuing to align with our distribution and production businesses

Our broadcast channels focus on three core genres – lifestyle, drama and documentary – that align strategically with the distributed films of the Motion Picture Distribution Group and the production focus of the Entertainment Group. Our programmers work closely with the production and distribution arms of the business to ensure that we have access to this attractive content, and we air many highly successful Alliance Atlantis-produced programs on our channels.

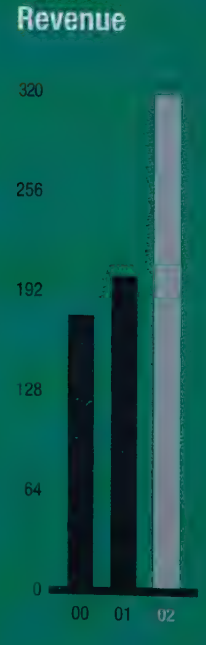


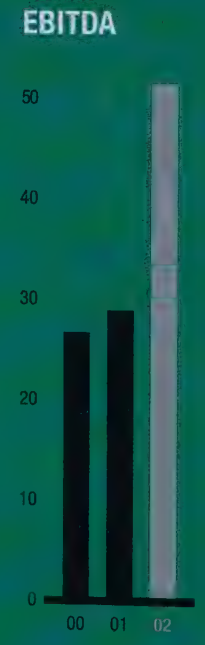
MOTION PICTURE DISTRIBUTION GROUP

PROFILE Alliance Atlantis is a leading Canadian distributor of motion pictures, and our wholly owned subsidiary Momentum Pictures is a growing force in motion picture distribution in the United Kingdom. The motion pictures are released theatrically, distributed through video and DVD sales and licenced to broadcast customers. During fiscal 2002, the Company released 83 theatrical motion pictures, 192 videos and 200 DVDs in Canada, and 14 theatrical motion pictures, 52 videos and 61 DVDs in the U.K. We also operate Alliance Atlantis Cinemas, a 24-screen chain of upscale cinemas in Canada in partnership with Famous Players, a subsidiary of Viacom, Inc.

KEY MEASURES OF SUCCESS

Motion Picture Distribution Group reported $318.0 million of revenues in fiscal 2002 – up 57% compared to fiscal 2001 and up 80% compared to fiscal 2000.





Motion Picture Distribution Group reported $51.5 million of EBITDA in fiscal 2002 – up 78% compared to fiscal 2001 and up 93% compared to fiscal 2000.

OUR STRATEGY We are committed to sustaining our strong position in Canadian motion picture distribution, continuing the profitable growth of our U.K.-based Momentum Pictures and exploring areas of growth both within and outside these two jurisdictions.



Victor J. Loewy
CHIEF EXECUTIVE OFFICER,
MOTION PICTURE DISTRIBUTION GROUP

Patrice Théroux
PRESIDENT,
MOTION PICTURE DISTRIBUTION GROUP

THE LORD OF THE RINGS
THE FELLOWSHIP OF THE RING

Amélie

Life AS A HOUSE

GOSFORD PARK

40 DAYS AND 40 NIGHTS

MEN WITH BROOMS

ATANARJUAT
THE FAST RUNNER

Leveraging great movies for maximum return

When we released *The Lord of the Rings: The Fellowship of the Ring* in theatres in Canada, we combined our knowledge of the Canadian marketplace with our marketing and publicity strength to launch what has become the second-highest grossing film in Canadian history. Our Canadian box office results for *The Lord of the Rings* have now surpassed $53 million – representing 17% of the North American market, a disproportionately greater share than Canada's actual market size. We frequently deliver box office returns that outpace Canada's "natural" North American market share of approximately 10% for our motion picture partners, and these results continue to make an important contribution to the strength of our relationship with them.

Enhancing distribution of Canadian films

Through our wholly owned distribution label Odeon Films, we delivered strong box office results in the distribution of Canadian films. For instance, the critically acclaimed Inuit-language film *Atanarjuat The Fast Runner* surpassed the $1 million mark in Canadian box office receipts. Alliance Atlantis also released the Canadian romantic comedy *Men With Brooms* to extraordinary box office success, with the film becoming the top grossing English-language Canadian film in the past two decades with over $4.1 million in box office receipts.

ACTIONS

Growing our U.K. business

Momentum Pictures, our U.K.-based wholly owned distribution subsidiary, experienced strong year-over-year growth by all measures, an endorsement of our local management team's focus on increasing our presence in the U.K. In fiscal 2002 we extended our agreement to distribute the Canal Plus video/DVD library and significantly increased our penetration of this market.

Capitalizing on our library

We have a very strong motion picture library comprised of both Canadian and international rights. We continue to actively seek ways to maximize its value. In this regard, during the year we delivered very strong broadcast sales to the pay television market as well as to both conventional and specialty cable broadcast customers. Going forward, we will continue to leverage this exceptional asset through increased broadcast sales as well as video/DVD distribution.

Amélie



Atanarjuat The Fast Runner



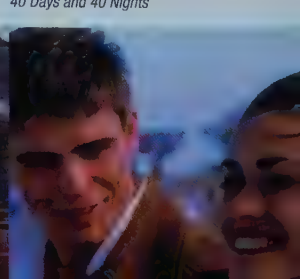
The Lord of the Rings: The Fellowship of the Ring



Life as a House



40 Days and 40 Nights



"We have a very strong motion picture library comprised of both Canadian and international rights. We continue to actively seek ways to maximize its value. In this regard, during the year we delivered very strong broadcast sales."

Strengthening existing partnerships

We have distribution agreements with New Line Cinema, Miramax, Artisan Entertainment and Universal Focus (formerly USA Films), providing the Company with long-term Canadian motion picture rights. The historical strength of these relationships is based on our ability to generate higher per capita revenue per film due to our extensive knowledge, presence and experience in the Canadian market. We work closely with these studios to ensure we deliver maximum returns through a well thought out and tailored approach to marketing each film.

Expanding distribution opportunities

Though video-on-demand remains relatively new in terms of technology and audience acceptance, we are the first company in Canada to move ahead with providing content for this service. We believe this forward-looking approach will leverage the Alliance Atlantis library and has strong potential for future expansion.

OPPORTUNITIES

Maximizing our release slate

Our theatrical release slate for fiscal 2002 was exceptionally strong, and we anticipate solid results in fiscal 2003 with the video/DVD releases of these films. At the same time, we will be focusing our efforts on maximizing the current fiscal year box office results from powerful franchise films like *Austin Powers in Goldmember*, *Spy Kids 2* and *The Lord of the Rings: The Two Towers.*

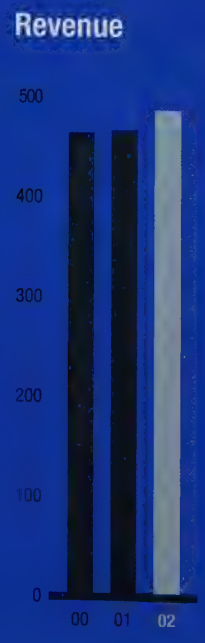


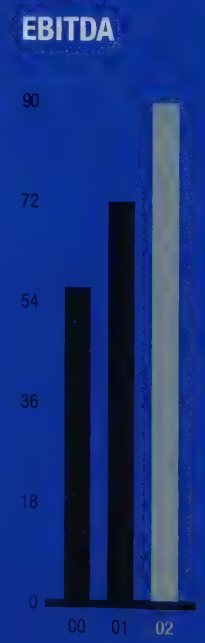
ENTERTAINMENT GROUP

PROFILE Alliance Atlantis is a leading producer and worldwide distributor of television programs and a small number of feature films. Our productions are licenced to Canadian, American and international broadcasters and subdistributors, and also service some of the content needs of the Company's other Operating Groups. Our productions include documentary and kids' programming, primetime television drama, as well as theatrical motion pictures. One of the shows we co-produce is *CSI: Crime Scene Investigation*, the most watched drama series on U.S. television.

KEY MEASURES OF SUCCESS

Entertainment Group reported $487.3 million of revenues in fiscal 2002 – up 4% compared to fiscal 2001 and up 5% compared to fiscal 2000.





Entertainment Group reported $89.9 million of EBITDA in fiscal 2002 – up 25% compared to fiscal 2001 and up 59% compared to fiscal 2000.

OUR STRATEGY We are committed to producing and selling high quality, commercially appealing content while focusing on reducing higher cost production and the capital we invest in it; delivering higher margin projects; and aligning the content that we produce with the programming requirements of our Broadcast Group.



Peter A. Sussman
CHIEF EXECUTIVE OFFICER,
ENTERTAINMENT GROUP

Edward A. Riley
PRESIDENT, DISTRIBUTION,
ENTERTAINMENT GROUP

Seaton S. McLean
PRESIDENT, PRODUCTION,
ENTERTAINMENT GROUP

CSI: CRIME SCENE INVESTIGATION

BOWLING FOR COLUMBINE

CSI: MIAMI

HENRY'S WORLD

formula 51

ACE

THIS HOUR HAS 22 MINUTES

COLD WAR
SUBMARINE ADVENTURES

The MATTHEW SHEPARD Story

Realigning our production focus

In an effort to improve our margin and profitability, as well as to adjust the volume of our output to better align with the reduced global demand for drama, we are continuing to deliver on our commitment to substantially reduce the output of high cost primetime television drama hours, to limit the number and size of in-house motion picture productions and to decrease the amount of capital invested in both of these activities. This has allowed us to step up our efforts in areas like documentary programming and other higher margin areas. Our efforts to date in this area have already had a positive impact on our margins.

Aligning production content with broadcast channels

The realignment of our Entertainment Group's production efforts, which over the past two years has included an increase in fact-based or documentary programming, dovetails with a focus of our broadcast channels. Today, we produce many programs – such as *Confessions of a Germ, Medical Profiles*, *Everest: The Dark Side*, *Things We Do for Love*, *Timelines* and *Uncorked in Italy* – for Discovery Health Channel, History Television, Life Network, Food Network Canada and National Geographic Channel.

ACTIONS

Maximizing the Value of *CSI*

Our ability to capitalize on the "hit" status of *CSI* has been an important achievement for Alliance Atlantis this year. By the end of the 2001/2002 U.S. television season, *CSI* had become the most watched drama series on U.S. television with weekly audience levels that have repeatedly topped the 25 million mark. On the strength of that success, and together with our partner, CBS Productions, we are proceeding with a spin-off series, *CSI: Miami*. Both the original *CSI* and *CSI: Miami* are featured in the CBS schedule for fall 2002.

Managing production risk through pre-sales

We manage risk by ensuring that the majority of our production costs are offset by pre-sales. Since most of our costs are covered before we begin filming, we ensure that there is demand for our productions, allowing further sales to generate profits.

Life with Judy Garland: Me and My Shadows



CSI: Crime Scene Investigation



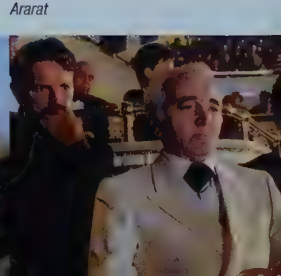
Henry's World



CSI: Miami



Ararat



"We are taking advantage of our unique position as a leading independent producer and distributor by stepping up our sales and marketing efforts to maintain momentum and to further our growth."

Continuing focus on margin improvement

We expect to make continued progress in our effort to improve our margin and profitability by rebalancing our mix of productions. We increased our margin in fiscal 2002 largely by reducing the production of higher cost, lower margin television series and benefiting from our focus on higher return drama, documentary and lifestyle programming, some of which aligns with the core genres of our broadcast channels.

Licencing *CSI* internationally

We have had tremendous success licencing broadcast rights of *CSI* around the world. Alliance Atlantis – which shares worldwide revenues on a 50/50 basis with CBS Productions after certain third-party profit participations – is continuing to succeed with international sales. *CSI* has now been licenced internationally in more than 65 countries including major markets like Canada, the U.K., France, Germany and Australia. We will continue this international sales focus into fiscal 2003 with both the original *CSI* and the new *CSI: Miami*.

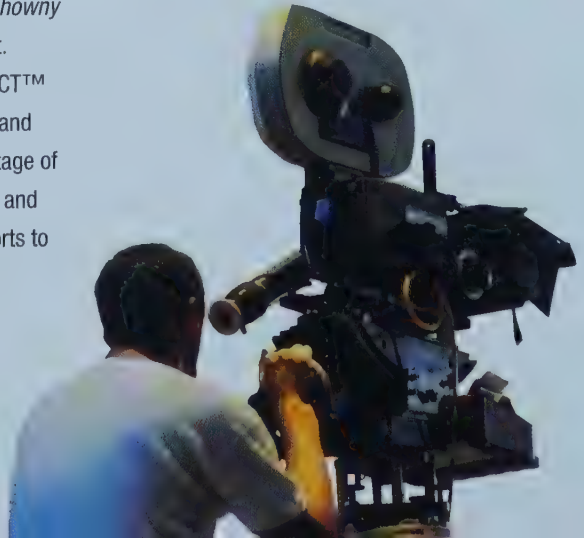
OPPORTUNITIES

Building market penetration

We have made significant inroads in international markets thanks to many of our recent successes. We have raised our profile through successful television programs like *CSI* and multi-award winning event mini-series like *Nuremberg* and *Life with Judy Garland: Me and My Shadows*. We have achieved significant milestones with our licencing of rights to U.S. studios for our slate of motion picture productions, such as *Bowling for Columbine* to United Artists, *Owning Mahowny* to Sony Classics and *The Good Thief* to Fox Searchlight. Additionally, we have moved to further develop AAC FACT™ and AAC KIDS™, our brands focused on documentary and kids' genres, respectively. Finally, we are taking advantage of our unique position as a leading independent producer and distributor by stepping up our sales and marketing efforts to maintain momentum and to further our growth.

Leveraging technology

We are constantly striving to take advantage of the quality improvements and cost benefits offered by new technology. For instance, we were an early adopter of shooting with digital and high definition technology, and our post-production process is entirely digital. Going forward, we will continue to seek ways in which to embrace new technology, especially when it reduces costs, creates efficiencies and encourages creativity.



MANAGEMENT'S DISCUSSION AND ANALYSIS

OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

THE FOLLOWING DISCUSSION AND ANALYSIS should be read in conjunction with the consolidated financial statements and notes therein included in the consolidated financial statements of Alliance Atlantis Communications Inc. ("Alliance Atlantis" or the "Company") for the year ended March 31, 2002.

We are a vertically integrated Canadian television broadcaster, creator and international distributor of filmed entertainment content. We have significant ownership interests, either wholly or in part, in 18 complementary specialty cable television channels.

OVERVIEW

The Company's principal business activities are carried out through three Operating Groups: the Broadcast Group, the Motion Picture Distribution Group and the Entertainment Group. In January 2002, the Company consolidated its existing television production and distribution activities with its in-house motion picture production and related distribution activities into a new Operating Group called the Entertainment Group. Prior periods' comparatives have been adjusted to reflect this change.

The following table presents an unaudited consolidated summary of our operating results on a quarterly basis for the fiscal years ended March 31, 2002 and 2001 (in millions of Canadian dollars):

	QUARTER ENDED				QUARTER ENDED			
	Mar 31 2002	**Dec 31 2001**	**Sep 30 2001[1]**	**Jun 30 2001[1]**	Mar 31 2001	Dec 31 2000	Sep 30 2000	Jun 30 2000
Revenue	**256.7**	**297.4**	**221.5**	**184.3**	259.2	247.3	194.0	105.6
Gross profit[2]	**78.9**	**82.4**	**62.4**	**52.6**	67.9	67.0	54.7	36.2
EBITDA[2]	**44.5**	**52.8**	**35.2**	**27.2**	40.3	43.1	32.4	17.8
Net earnings	**12.8**	**21.7**	**6.2**	**6.6**	8.2	15.8	9.6	1.4

[1] ON OCTOBER 1, 2001, THE COMPANY RETROACTIVELY ADOPTED SOP 00-2 EFFECTIVE AS OF APRIL 1, 2001. RESULTS FOR THE QUARTER ENDED JUNE 30, 2001 AND FOR THE QUARTER ENDED SEPTEMBER 30, 2001 HAVE BEEN RESTATED TO REFLECT THE EFFECT OF THIS CHANGE IN ACCOUNTING POLICY.

[2] EBITDA IS DEFINED AS EARNINGS BEFORE INTEREST, INCOME TAXES, AMORTIZATION, MINORITY INTEREST, EQUITY INTEREST IN AFFILIATES, INVESTMENT GAINS AND RESTRUCTURING CHARGES. GROSS PROFIT IS DEFINED AS REVENUE LESS DIRECT OPERATING EXPENSES. EBITDA AND GROSS PROFIT ARE MEASURES USED BY THE COMPANY TO MEASURE ITS OPERATING PERFORMANCE, INCLUDING ITS ABILITY TO GENERATE CASH FLOW. EBITDA AND GROSS PROFIT AND RELATED MEASURES MAY OR MAY NOT BE CONSISTENT WITH THE CALCULATION OF SIMILAR MEASURES FOR OTHER COMPANIES, AND SHOULD NOT BE VIEWED AS ALTERNATIVES TO NET EARNINGS OR OTHER MEASURES OF PERFORMANCE CALCULATED IN ACCORDANCE WITH CANADIAN GENERALLY ACCEPTED ACCOUNTING PRINCIPLES.

We and our consolidated subsidiaries earn revenue from various sources, the most significant of which are described below.

Our **BROADCAST GROUP** revenue is earned from fees paid to us by cable, Direct to Home (DTH) and other broadband systems operators based on fees paid to them by subscribers to our specialty cable channels, as well as directly from advertisers who purchase advertising on our specialty cable channels. Additionally, other Broadcast Group revenues are generated from the rental of facilities, government tax credits and licence fees earned on the distribution of certain programming.

Our **MOTION PICTURE DISTRIBUTION GROUP** generates revenue from the theatrical distribution of motion pictures, the licencing of rights to broadcasters, the sale of videocassettes (videos) and DVDs, the arrangement of structured financing, the exhibition of motion pictures through our chain of cinemas and government assistance for distribution activities.

We derive motion picture distribution revenue from licence fees earned on theatrical television distribution. Licence fees from theatrical distribution are earned from theatre owners who exhibit films distributed by us in their theatres for a percentage of box office revenue.

Our wholly owned structured financing business, Equicap Financial Corporation, provides high yield loans to independent film and television producers. We derive revenue from interest on the loans and arrangement fees. In fiscal 2002, the Company was winding down this business and will continue to do so in fiscal 2003 and beyond.

Our **ENTERTAINMENT GROUP** generates revenue from the production and distribution of television programming and feature films domestically and internationally. We generate revenue by licencing both internally produced television programming and feature films as well as acquired content to broadcasters and buyers worldwide. Government assistance with respect to production activity is provided in the form of government grants and tax credits. There are several sources of funds available for the financing of our production and distribution activities, including financing from equity investors, non-equity funding, broadcast licence fees and government assistance. Equity investors can be co-producers, broadcasters and also government organizations, such as Telefilm and La Société de Développement des Entreprises Culturelles (SODEC). Non-equity funding primarily comes through the Canadian Television Fund (the Licence Fee Program) that tops up Canadian broadcast licence fees for the respective Canadian broadcaster.

Revenue classified under **OTHER** is derived primarily from Sentinal Hill Alliance Atlantis Equicap Limited Partnership (SHAAELP) in which one of our subsidiaries has a 30% limited partnership interest. SHAAELP originates and sells structured financing products related to the film and television industries by packaging items related to production services into limited partnerships and selling them to Canadian investors to encourage production in Canada. SHAAELP receives fees for selling these limited partnerships.

RESULTS OF OPERATIONS

The following table presents a consolidated summary of the Company's Operating Groups for the years ended March 31, 2002, 2001 and 2000 (in millions of Canadian dollars):

							% INCREASE (DECREASE)	
	2002	%[1]	2001	%[1]	2000	%[1]	2002 OVER 2001	2001 OVER 2000
Revenue								
Broadcast Group – Operating Channels	**129.8**	**13.5**	109.5	13.6	93.4	12.1	18.5	17.2
Motion Picture Distribution Group	**318.0**	**33.1**	202.1	25.1	176.4	22.9	57.3	14.6
Entertainment Group	**487.3**	**50.8**	467.4	58.0	464.7	60.2	4.3	0.6
Other	**13.7**	**1.4**	22.0	2.7	37.1	4.8	(37.7)	(40.7)
	948.8	**98.8**	801.0	99.4	771.6	100.0	18.5	3.8
Broadcast Group – Developing Channels	**11.1**	**1.2**	5.1	0.6	–	–	117.6	–
	959.9	**100.0**	806.1	100.0	771.6	100.0	19.1	4.5
Direct operating expenses								
Broadcast Group – Operating Channels	**53.4**	**41.1**	46.1	42.1	39.9	42.7	15.8	15.5
Motion Picture Distribution Group	**249.1**	**78.3**	158.3	78.3	140.8	79.8	57.4	12.4
Entertainment Group	**372.9**	**76.5**	370.0	79.2	389.3	83.8	0.8	(5.0)
Other	**0.1**	**0.7**	0.8	3.6	22.4	60.4	(87.5)	(96.4)
	675.5	**71.2**	575.2	71.8	592.4	76.8	17.4	(2.9)
Broadcast Group – Developing Channels	**8.1**	**73.0**	5.1	100.0	–	–	58.8	–
	683.6	**71.2**	580.3	72.0	592.4	76.8	17.8	(2.0)
Gross profit[2]								
Broadcast Group – Operating Channels	**76.4**	**58.9**	63.4	57.9	53.5	57.3	20.5	18.5
Motion Picture Distribution Group	**68.9**	**21.7**	43.8	21.7	35.6	20.2	57.3	23.0
Entertainment Group	**114.4**	**23.5**	97.4	20.8	75.4	16.2	17.5	29.2
Other	**13.6**	**99.3**	21.2	96.4	14.7	39.6	(35.8)	44.2
	273.3	**28.8**	225.8	28.2	179.2	23.2	21.0	26.0
Broadcast Group – Developing Channels	**3.0**	**27.0**	–	–	–	–	–	–
	276.3	**28.8**	225.8	28.0	179.2	23.2	22.4	26.0
Operating expenses	**116.6**	**12.1**	92.2	11.4	73.0	9.5	26.5	26.3
Earnings (loss) before undernoted (EBITDA[2])								
Broadcast Group – Operating Channels	**52.8**	**40.7**	46.2	42.2	29.7	31.8	14.3	55.6
Motion Picture Distribution Group	**51.5**	**16.2**	28.9	14.3	26.7	15.1	78.2	8.2
Entertainment Group	**89.9**	**18.4**	72.1	15.4	56.7	12.2	24.7	27.2
Other	**(17.5)**	**(127.7)**	(8.2)	(37.3)	(6.9)	–	(113.4)	–
	176.7	**18.6**	139.0	17.4	106.2	13.8	27.1	30.9
Broadcast Group – Developing Channels	**(17.0)**	**(153.2)**	(5.4)	(105.9)	–	–	(214.8)	–
	159.7	**16.6**	133.6	16.6	106.2	13.8	19.5	25.8

[1] THE PERCENTAGE COLUMNS SHOW PERCENTAGE OF TOTAL REVENUE FOR REVENUE ITEMS AND OPERATING EXPENSES AND PERCENTAGE OF GROUP REVENUE FOR DIRECT OPERATING EXPENSES, GROSS PROFIT AND EBITDA.

[2] EBITDA IS DEFINED AS EARNINGS BEFORE INTEREST, INCOME TAXES, AMORTIZATION, MINORITY INTEREST, EQUITY INTEREST IN AFFILIATES, INVESTMENT GAINS AND RESTRUCTURING CHARGES. GROSS PROFIT IS DEFINED AS REVENUE LESS DIRECT OPERATING EXPENSES. EBITDA AND GROSS PROFIT ARE MEASURES USED BY THE COMPANY TO MEASURE ITS OPERATING PERFORMANCE, INCLUDING ITS ABILITY TO GENERATE CASH FLOW. EBITDA AND GROSS PROFIT AND RELATED MEASURES MAY OR MAY NOT BE CONSISTENT WITH THE CALCULATION OF SIMILAR MEASURES FOR OTHER COMPANIES, AND SHOULD NOT BE VIEWED AS ALTERNATIVES TO NET EARNINGS OR OTHER MEASURES OF PERFORMANCE CALCULATED IN ACCORDANCE WITH CANADIAN GENERALLY ACCEPTED ACCOUNTING PRINCIPLES.

The following table presents a reconciliation of the net earnings for the year, as reported, to EBITDA and gross profit for the years ended March 31, 2002, 2001 and 2000 (in millions of Canadian dollars):

	2002	2001	2000
Net earnings for the year, as reported	**47.3**	35.0	39.1
Less:			
Investment gains, net	**(11.8)**	(5.9)	(2.5)
Add:			
Provision for income taxes	**8.6**	13.6	19.3
Restructuring charges	**4.0**	–	–
Equity losses in affiliates	**11.1**	1.6	–
Amortization, including development costs charges	**22.8**	26.7	14.5
Interest, including amortization of interest previously capitalized	**75.4**	61.6	36.3
Minority interest	**2.3**	1.0	(0.5)
Earnings before undernoted (EBITDA)[1] (Including Developing Channels EBITDA losses)	**159.7**	133.6	106.2
Add:			
Broadcast Group – Developing Channels EBITDA losses	**17.0**	5.4	–
EBITDA (excluding Developing Channels EBITDA losses)	**176.7**	139.0	106.2
EBITDA (Including Developing Channels EBITDA losses)	**159.7**	133.6	106.2
Add:			
Operating expenses	**116.6**	92.2	73.0
Gross profit[2] (Including Developing Channels Gross profit)	**276.3**	225.8	179.2
Less:			
Broadcast Group – Developing Channels Gross profit	**3.0**	–	–
Gross profit (excluding Developing Channels Gross profit)	**273.3**	225.8	179.2

[1] EBITDA IS USED BY THE COMPANY TO MEASURE ITS OPERATING PERFORMANCE ON A BASIS THAT PROVIDES A MEANINGFUL YEAR-OVER-YEAR COMPARISON OF ITS CORE OPERATIONS, INCLUDING ITS ABILITY TO GENERATE CASH FLOW TO FUND FIXED COSTS. THIS MEASURE THEREFORE EXCLUDES SIGNIFICANT NON-RECURRING ITEMS SUCH AS RESTRUCTURING CHARGES AND INVESTMENT GAINS AS WELL AS NON-CORE OPERATIONAL ITEMS SUCH AS EQUITY INTEREST IN AFFILIATES, AMORTIZATION, INTEREST, MINORITY INTEREST AND PROVISION FOR INCOME TAXES.

[2] GROSS PROFIT IS USED BY THE COMPANY TO MEASURE THE DIRECT OPERATING PERFORMANCE OF ITS VARIOUS REVENUE STREAMS PRIOR TO TAKING INTO ACCOUNT INDIRECT GENERAL AND ADMINISTRATIVE OPERATING EXPENSES.

FISCAL 2002 COMPARED TO FISCAL 2001

Comparability of revenue and gross margin with the prior year is somewhat affected by the current year adoption of Statement of Position 00-2 "Accounting by Producers or Distributors of Films" (SOP 00-2). The prior years' financial statements have not been restated, as the effect of the new policy on prior periods was not reasonably determinable. The impact of the adoption has been disclosed in note 2 of the consolidated financial statements of the Company.

Revenue Revenue was $959.9 million for fiscal 2002 compared to $806.1 million for fiscal 2001, representing an increase of $153.8 million or 19.1%.

The Broadcast Group – Operating Channels' revenue was $129.8 million in fiscal 2002 compared to $109.5 million in fiscal 2001, representing an increase of $20.3 million or 18.5%. This increase was the result of the growth in advertising, subscription and other revenues in the Channels, as the trend of increasing popularity of specialty cable channels continued in fiscal 2002, and the increased contribution from a full year of operation of Food Network Canada which was launched in fiscal 2001 as an Operating Channel. Operating Channel subscriber revenues were $72.0 million in fiscal 2002 compared to $67.0 million in fiscal 2001, representing an increase of $5.0 million or 7.5%. Advertising revenues were $48.9 million in fiscal 2002 compared to $39.5 million in fiscal 2001, representing an increase of $9.4 million or 23.8%. Other revenue was $8.9 million in fiscal 2002 compared to $3.0 million in the prior fiscal year.

The Broadcast Group – Developing Channels' revenue was $11.1 million in fiscal 2002 compared to $5.1 million in fiscal 2001, representing an increase of $6.0 million or 117.6%. Developing Channels include the Company's 50% share in two French-language channels (Series+ and Historia) as well as the newly launched digital specialty cable channels. The French channels experienced significant growth in subscription and advertising revenues compared to the prior year. These two channels will move to Operating Channels from their current Developing Channels status commencing in the 2003 fiscal year. The newly launched digital channels began to earn both subscription and advertising revenues in fiscal 2002. (See note 23 to the consolidated financial statements of the Company for a definition of Developing Channels.)

The Motion Picture Distribution Group's revenue was $318.0 million in fiscal 2002 compared to $202.1 million in fiscal 2001, representing an increase of $115.9 million or 57.3%. This increase is due to increased revenue in domestic distribution and revenue growth in Momentum Pictures. Domestic distribution revenues increased by 47.4%, reflecting the quality of our fiscal 2002 slate. The average theatrical revenue per released picture was $1.0 million in fiscal 2002 compared to $0.6 million in fiscal 2001. The 83 domestic theatrical releases in fiscal 2002 included *The Lord of the Rings: The Fellowship of the Ring*, *Rush Hour 2*, *Bridget Jones's Diary*, *The Others*, *Scary Movie 2*, *Blow*, *I Am Sam*, and *40 Days and 40 Nights*. Domestic distribution released 192 videos and 200 DVDs in fiscal 2002 compared to 163 and 165, respectively, in fiscal 2001. Momentum Pictures' revenue increased by 192.3% reflecting the growth of its distribution activities, primarily in the video and DVD businesses. Momentum Pictures released 52 videos and 61 DVDs in fiscal 2002 compared to 32 and 15, respectively, in fiscal 2001. Additionally, Momentum Pictures had 14 theatrical releases in fiscal 2002. The Motion Picture Distribution Group also recorded revenue growth of $3.7 million from Alliance Atlantis Cinemas due to an increase in the average box office and concession revenue per patron combined with increased attendance.

The Entertainment Group's revenue was $487.3 million for fiscal 2002 compared to $467.4 million in fiscal 2001, representing an increase of $19.9 million or 4.3%. The revenue growth was primarily attributable to a $31.0 million increase in distribution revenue, offset by a $10.5 million decrease in production revenue. The decrease in production revenue resulted from the intentional delivery of fewer high priced, lower margin dramas in fiscal 2002 compared to fiscal 2001. In fiscal 2002 total television series, movies-of-the-week ("MOW"s) and mini-series hours delivered were 261.5 as compared to 240.5 hours delivered in fiscal 2001. With the acquisition of Salter Street Films Limited in fiscal 2002, these total hours include 24.0 hours in the comedy genre and an additional 24.0 hours in television series. In addition, a total of 94.0 hours were delivered under the AAC Fact™ label in fiscal 2002 compared to 69.5 hours delivered in fiscal 2001.

Other revenue, which includes revenue from SHAAELP and other corporate investments, was $13.7 million in fiscal 2002 compared to $22.0 million in fiscal 2001, representing a decrease of $8.3 million or 37.7% reflecting changes to the matchable expenditure rules of the Income Tax Act (Canada). With respect to SHAAELP, the Company continues to expand the non-Canadian component of this business in the U.K. and abroad. Commencing in fiscal 2003, the Company expects earnings derived from Canadian sources to be significantly less than in prior years.

Gross Profit Gross profit (including the Developing Channels) was $276.3 million in fiscal 2002 compared to $225.8 million in fiscal 2001, representing an increase of $50.5 million or 22.4%. As a percentage of revenue, gross profit margin (including the Developing Channels) increased to 28.8% in fiscal 2002 compared to 28.0% in fiscal 2001. This increase in gross profit was primarily attributable to continued improvements in the Entertainment Group's margin, as well as contributions from the Broadcast Operating and Developing Channels.

The Broadcast Group – Operating Channels' gross profit margin increased to 58.9% in fiscal 2002 from 57.9% in fiscal 2001 as a result of increased operating efficiencies and the contribution from Food Network Canada, launched in fiscal 2001.

The Broadcast Group – Developing Channels' gross profit margin increased to 27.0% in fiscal 2002 from zero in fiscal 2001. This reflects the growing revenues from Series+ and Historia.

The Motion Picture Distribution Group's gross profit margin remained constant at 21.7% in fiscal 2002 compared to fiscal 2001.

The Entertainment Group's gross profit margin increased to 23.5% in fiscal 2002 compared to 20.8% in fiscal 2001. This increase resulted primarily from the delivery of higher margin shows such as *CSI: Crime Scene Investigation* and a number of shows in the AAC Fact™ and television movie genres. This increase illustrates the Company's focus on higher margin production projects as we scaled back the number and cost of primetime drama hours produced.

Other gross profit margin was 99.3% in fiscal 2002 and contributed 4.9% of total gross profit in fiscal 2002. This is primarily the recognition of the net revenue from SHAAELP. The Company is expecting modest earnings from SHAAELP in the future based on changes to the matchable expenditure rules of the Income Tax Act (Canada).

Operating Expenses Operating expenses were $116.6 million in fiscal 2002 compared to $92.2 million in fiscal 2001, representing an increase of $24.4 million or 26.5%. The increase in operating expenses is a direct result of our growth initiatives, including the continued growth in Momentum Pictures, the acquisition of Salter Street Films, the inclusion of a full year of operation of Food Network Canada and the launch of the Company's seven new digital specialty cable channels in fiscal 2002. The Company expenses all of its pre-operating costs related to the launch of its specialty cable channels.

Amortization Amortization was $22.8 million in fiscal 2002 compared to $26.7 million in fiscal 2001, representing a decrease of $3.9 million or 14.6%. Amortization includes development costs charges, and amortization of property and equipment and other assets. Prior to fiscal 2002, amortization also included amortization of goodwill and broadcast licences. For fiscal 2002, the Company adopted the new accounting standard, whereby goodwill and identifiable intangible assets with indefinite useful lives, such as broadcast licences, are no longer amortized. This represented $4.6 million of the amortization in fiscal 2001.

Interest Interest was $75.4 million in fiscal 2002 compared to $61.6 million in fiscal 2001, representing an increase of $13.8 million or 22.4%. This increase resulted from a higher average effective interest rate due to the issuance of additional senior subordinated notes during the latter part of fiscal 2001 and a higher average debt balance throughout fiscal 2002 compared to the prior year. Total debt remained flat with the March 31, 2002 balance at $615.4 million as compared to $615.5 million at the start of fiscal 2002.

Total interest expense is net of amounts capitalized to investment in film and television programs of $19.0 million in fiscal 2002 compared to $22.7 million in fiscal 2001 and includes $8.9 million in fiscal 2002 compared to $12.8 million in fiscal 2001 of amortization of interest previously capitalized to investment in film and television programs. Interest that has been capitalized and not expensed during the year is charged to interest in future periods as the related film and television programs are delivered and costs are amortized.

Income Taxes Our effective income tax rate for fiscal 2002 was approximately 15.4% compared to a rate of 28.0% in fiscal 2001. The reduction in rates is attributable to the relative increase in earnings in lower income tax rate jurisdictions and of lower earnings in higher income tax rate jurisdictions and the overall decline in Canadian corporate income tax rates.

Net Earnings Net earnings for fiscal 2002 were $47.3 million as compared to $35.0 million in fiscal 2001. On a per share diluted basis, net earnings were $1.19 as compared to $1.09 in fiscal 2001. Included in net earnings for fiscal 2002 and fiscal 2001 were after-tax gains from long-term investments of $11.6 million and $4.3 million, respectively. As disclosed in note 2 of the consolidated financial statements of the Company, had fiscal 2001 been subject to the new accounting policy "Goodwill and Other Intangible Assets" the net earnings would have been $39.6 million and diluted earnings per share would have been $1.23.

FISCAL 2001 COMPARED TO FISCAL 2000

Revenue Revenue was $806.1 million for fiscal 2001 compared to $771.6 million for fiscal 2000, representing an increase of $34.5 million or 4.5%.

The Broadcast Group – Operating Channels' revenue was $109.5 million in fiscal 2001 compared to $93.4 million in fiscal 2000, representing an increase of $16.1 million or 17.2%. This increase was the result of the growth in subscription and advertising revenue in the existing channels and the contribution by the newly launched Food Network Canada.

The Broadcast Group – Developing Channels' revenue was $5.1 million in fiscal 2001 compared to zero revenue in fiscal 2000. Developing Channels includes the Company's 50% share in the French services (Series+ and Historia), which ended their free preview period in fiscal 2001.

The Motion Picture Distribution Group's revenue was $202.1 million in fiscal 2001 compared to $176.4 million in fiscal 2000, representing an increase of $25.7 million or 14.6%. This increase is due to increased revenue from our investment in Momentum Pictures, motion picture

distribution and Alliance Atlantis Cinemas. Momentum Pictures' revenue increased by $12.7 million as fiscal 2001 represented its first full year of operation. Domestic distribution revenue increased by $9.8 million primarily due to increased television sales from the motion picture library. The Motion Picture Distribution Group also recorded revenue growth of $2.7 million from Alliance Atlantis Cinemas due primarily to the opening of the Bayview Theatre in Toronto in fiscal 2001.

The Entertainment Group's revenue was $467.4 million for fiscal 2001 compared to $464.7 million in fiscal 2000, representing an increase of $2.7 million or 0.6%. This slight increase was primarily attributable to a $42.4 million increase in television production revenue, offset by a $6.3 million decrease in distribution revenue and a $26.5 million decrease in motion picture production revenue. Motion picture production revenue declined because we delivered only two motion pictures (*Marine Life* and *Possible Worlds*) in fiscal 2001, compared to six (*The Five Senses*, *Felicia's Journey*, *A Room for Romeo Brass*, *Stardom*, *Sunshine* and *The Last Witness*) in fiscal 2000. In addition, international motion picture distribution revenue decreased by $7.0 million due to the smaller number of films delivered by the motion picture production division. The increase in television production revenue resulted from our transition into documentary production and our focus on lower volume, higher margin programming. With the consolidation of Great North Communications Ltd. (Great North) as a result of our purchase of its remaining shares that we did not already own, a total of 69.5 hours were delivered under the AAC Fact™ label in fiscal 2001 compared to none in fiscal 2000. The average revenue per hour of programming increased to $1.3 million per hour in fiscal 2001, compared to $1.1 million per hour in fiscal 2000. In fiscal 2001 total television series, MOWs and mini-series hours were 240.5 as compared to 277.0 in fiscal 2000.

Other revenue, which includes revenue from SHAAELP and other corporate investments, was $22.0 million in fiscal 2001. Fiscal 2001 was the first year of operation for SHAAELP as the previous year's revenue of $37.1 million represented the activities of Alliance Atlantis Equicap Corporation ("Alliance Atlantis Equicap") and other corporate investments. The decrease in revenue is largely due to our recognizing net revenue from SHAAELP on a proportionally consolidated basis versus revenue from Alliance Atlantis Equicap on a fully consolidated basis. This accounting treatment results in lower revenue recognized but significantly higher margins.

Gross Profit Gross profit was $225.8 million in fiscal 2001 compared to $179.2 million in fiscal 2000, representing an increase of $46.6 million or 26.0%. As a percentage of revenue, gross profit margin increased to 28.0% in fiscal 2001 compared to 23.2% in fiscal 2000. This increase was primarily attributable to an increased contribution from SHAAELP, which generated a gross profit margin of 96.4%, as well as significant improvements in the Entertainment Group's margin.

The Broadcast Group – Operating Channels' gross profit margin increased to 57.9% in fiscal 2001 from 57.3% in fiscal 2000 as a result of increased operating efficiencies.

The Broadcast Group – Developing Channels' gross profit margin was zero in fiscal 2001 and reflects the new French channels (Series+ and Historia).

The Motion Picture Distribution Group's gross profit margin increased to 21.7% in fiscal 2001 compared to 20.2% in fiscal 2000. The increase in gross profit margin resulted from the combination of the inclusion of a full year of operations of Momentum Pictures and increased margins in the domestic distribution business. Momentum Pictures enjoyed strong revenue from DVD sales from its distribution agreements with Studio Canal and Artisan. Domestic distribution margins improved slightly on strong television sales from the motion picture library.

The Entertainment Group's gross profit margin increased to 20.8% in fiscal 2001 compared to 16.2% in fiscal 2000. This increase resulted primarily from the first year of our higher margin AAC Fact™ division and increased focus on higher margin television series, MOWs and mini-series as we scaled back the number of primetime drama hours produced.

Other gross profit margin was 96.4% in fiscal 2001 and contributed 9.4% of total gross profit in fiscal 2001. The increase in margin is due to our recognizing net revenue from SHAAELP versus gross revenue from Alliance Atlantis Equicap.

Operating Expenses Operating expenses were $92.2 million in fiscal 2001 compared to $73.0 million in fiscal 2000, representing an increase of $19.2 million or 26.3%. The increase in operating expenses is a direct result of our growth initiatives. Fiscal 2001 represented the first year

of consolidation of Great North, and the first full year of operation for each of Tattersall Sound Inc., Momentum Pictures and the Developing Channels (Series+ and Historia). The Company also launched Food Network Canada in fiscal 2001.

Amortization Amortization was $26.7 million in fiscal 2001 compared to $14.5 million in fiscal 2000, representing an increase of $12.2 million or 84.1%. Amortization includes amortization of development costs, property and equipment, goodwill, other assets and broadcast licences. This increase in amortization resulted primarily from the amortization of development costs and property and equipment.

Interest Interest was $61.6 million in fiscal 2001 compared to $36.3 million in fiscal 2000, representing an increase of $25.3 million or 69.7%. This increase resulted from higher borrowing levels and a higher effective interest rate due to the issuance of additional senior subordinated notes during fiscal 2001. Total debt at March 31, 2001 was $615.5 million as compared to $469.9 million at the start of fiscal 2001.

Total interest expense is net of amounts capitalized to investment in film and television programs of $22.7 million in fiscal 2001 compared to $22.0 million in fiscal 2000 and includes $12.8 million in fiscal 2001 compared to $15.7 million in fiscal 2000 of amortization of interest previously capitalized to investment in film and television programs. Interest which has been capitalized and not expensed during the year is charged to interest in future periods as the related film and television programs are delivered and costs are amortized.

Income Taxes Our effective income tax rate for fiscal 2001 was approximately 28.0% compared to a rate of 33.1% in fiscal 2000. The reduction in rates is attributable to relatively higher earnings in lower income tax rate jurisdictions and of lower earnings in higher income tax rate jurisdictions.

Net Earnings Net earnings for fiscal 2001 were $35.0 million as compared to $39.1 million in fiscal 2000. On a per share diluted basis, net earnings were $1.09 as compared to $1.25 in fiscal 2000. Included in net earnings for fiscal 2001 and fiscal 2000 were after tax gains from long-term investments of $4.3 million and $1.4 million, respectively. As disclosed in note 2 of the consolidated financial statements of the Company, had fiscal 2001 and fiscal 2000 been subject to the new accounting policy "Goodwill and Other Intangible Assets" the net earnings would have been $39.6 million and $43.2 million respectively, and diluted earnings per share would have been $1.23 and $1.38, respectively.

LIQUIDITY AND CAPITAL RESOURCES

The nature of our business is such that significant expenditures are required to produce and acquire television programs and motion pictures in advance of revenue generation from these programs and motion pictures, which is earned over an extended period of time after their completion or acquisition. As well, launching new specialty cable channels is initially capital-intensive. This results in significant working capital requirements. Working capital, comprising cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities, deferred revenue and investments in film and television programs, net of our senior revolving credit facility, was $500.4 million at March 31, 2002 compared to $393.3 million at March 31, 2001 (after the effect of SOP 00-2), representing an increase of $107.1 million or 27.2%. The Company will realize on its investments in film and television programs over a longer period than the related payables.

Our operating activities are principally financed by cash flow generated from operating activities, net of investment in property and equipment. For fiscal 2002, these activities generated a combined cash outflow of $92.7 million as compared to a combined cash outflow of $81.9 million in fiscal 2001. This $10.8 million increase in cash outflow is primarily attributable to our start-up investment in property and equipment related to our new digital specialty channels plus the investment in film and television programs (broadcast rights) related to these new channels. The cash outflow from these activities is partially offset by increased earnings from each of our core operating groups, net of increased interest costs.

The Company's investing activities and shortfalls in cash flow from operating activities are typically funded by the Company's $500.0 million senior revolving credit facility, $25.0 million swing line facility, or debt or equity issuances. As at March 31, 2002, the Company had committed undrawn credit facilities of $427.1 million, excluding the outstanding letters of credit of $65.4 million.

Senior Revolving Credit Facility In fiscal 2001, we modified our existing credit facility by increasing the authorized principal amount from $440.0 million to $500.0 million and extending the term to January 2006. The senior revolving credit facility provides up to $500.0 million in borrowings bearing interest at rates ranging from the Bankers' Acceptance rate and LIBO rate plus 0.75% to plus 3.0%, and the Canadian prime

rate and the U.S. base rate plus up to 1.75%. The facility is due in full in January 2006. In addition, a revolving swing line facility, due on demand, provides up to $25.0 million in borrowings bearing interest at rates noted above.

Senior Subordinated Notes The Company has issued an aggregate of US$300.0 million senior subordinated notes bearing interest at 13% per year that mature on December 15, 2009.

Term Loans Term loans include various mortgages payable on certain Company property, as well as industry loans and obligations under capital lease. Also included within term loans are $7.4 million of loans owing by a wholly owned subsidiary, Equicap Financial Corporation ("EFC"), under a revolving term facility. EFC uses its credit facilities to make loans to producers. Recourse is limited to EFC and the Company's interest in EFC.

Share Capital In fiscal 2002, the Company issued 8,000,000 Class B Non-Voting Shares pursuant to a public offering for gross proceeds of $138.4 million, less $9.8 million in issue costs.

The Company has proven its success in securing a committed five-year senior revolving credit facility, and in raising debt and equity capital in the Canadian and U.S. markets. We believe that the availability of our current committed senior revolving credit facility, the operating facility, capital base and earnings from operations will be sufficient to fund the Company's operations and commitments for the foreseeable future, although there can be no assurance in this regard.

RISKS AND UNCERTAINTIES

The television and motion picture industries and specialty television channel broadcasting have always involved a substantial degree of risk. There can be no assurance of the economic success of any motion picture, television program or specialty television channel as revenue derived depends on audience acceptance, which cannot be accurately predicted. Audience acceptance is a factor not only of the response to the television program's or motion picture's artistic components or the specialty television channel's content, but also of the reviews of critics, promotions, the quality and acceptance of other competing programs released into, or channels existing in, the marketplace at or near the same time, the availability of alternative forms of entertainment and leisure time activities, general economic conditions, public tastes generally and other intangible factors, all of which could change rapidly and many of which are beyond our control. The lack of audience acceptance for our television programs, motion pictures or specialty television channels could have an adverse impact on our businesses, results of operations, prospects and financial condition.

In addition, television and motion picture production and distribution costs, as well as our Broadcasting Group's programming costs, continue to rise. Our businesses may also be impacted by prevailing advertising rates, which are subject to fluctuation. A substantial portion of our Broadcast Group's revenues is from advertising sales. We compete for advertising sales with other television channels, radio and print media. Our inability to generate advertising revenue could adversely impact our operating results, prospects or financial condition. Specialty television channel operators rely on fees from subscribers, which are shared with cable and DTH operators, to provide a substantial portion of their revenue while they build an audience and advertising support.

Generally, television programs are produced under contracts that provide for licence fee revenue that may not cover all anticipated production costs. The "gap" or production deficit between these fees and production costs can be substantial. The ability to recover the production deficit and the realization of profits, if any, are generally dependent upon the ability to distribute the programs in multiple geographic regions, including international markets, or through multiple distribution channels. There is a risk that some or all of our television and motion picture projects or specialty television channels will not be successful, which could result in a failure to recoup costs or realize profits. We cannot be certain that revenue from existing or future projects would replace a possible loss of revenue associated with the cancellation of any particular project or poor results of any particular specialty television channel.

The production, completion and distribution of television programs and motion pictures require a significant amount of capital. There are substantial financial risks relating to the production, completion and release of future television programs and motion pictures. Actual television program and motion picture costs may exceed their budgets. Factors such as labour disputes, death or disability of a star performer, technology changes relating to special effects or other aspects of production, shortages of necessary equipment, damage to film negatives, master tapes and

recordings or adverse weather conditions may cause cost overruns and delay or hamper completion of a production. Although we generally complete our productions within budget, we cannot be certain that we will continue to do so. On certain productions we maintain insurance policies ("completion bonds") covering certain of these risks and we intend to continue such practices. We cannot be certain that any cost overruns will be adequately covered or that such completion bonds will be available or continue to be available on terms acceptable to us or that we will obtain completion bonds in every case. In the event of substantial budget overruns we may have to seek additional financing from outside sources in order to complete production of a project. We cannot be certain of the availability of such financing or that such financing will be available on terms acceptable to us. In addition, in the event of substantial budget overruns, we cannot be certain that we will be able to recoup such costs. Failure to recoup any of these costs could have an adverse impact on our businesses, results of operations, prospects and financial condition.

Our specialty television channels are regulated by the Canadian Radiotelevision and Telecommunications Commission (CRTC), which grants and renews licences. Our CRTC broadcasting licences must be renewed from time to time, typically every seven years, and cannot be transferred without regulatory approval. Our inability to renew any of our licences on favourable terms, or at all, would have an adverse impact on our results of operations, prospects or financial condition. Changes in the regulations governing our specialty television channels, including decisions by regulators affecting our broadcast operations, such as the granting or renewal of licences or the granting of additional broadcast licences to our competitors, or the introduction of new regulations by regulators, could adversely impact our operating results, prospects or financial condition.

A significant portion of our revenue and expenses are in currencies other than Canadian dollars and, therefore, are subject to fluctuations in exchange rates. Approximately 41% of our revenues for fiscal 2002 were derived from our foreign customers, the majority of which were paid in U.S. dollars. Exchange rates may vary substantially and have an adverse impact on our results of operations, prospects or financial condition.

As part of our business strategy, we intend to continue expansion of our non-Canadian distribution activities and, therefore, will continue to earn a substantial portion of our revenue from outside of Canada. Our ability to maintain or expand our international business, as well as our ability to contract upon favourable terms with international broadcasters, distributors and other licencees, and conduct foreign production activities depends, in part, on local economic conditions, currency fluctuations, local changes in regulatory requirements, compliance with a variety of foreign laws and regulations, inflation, interest rates and cultural barriers and preferences. As a result, we cannot be certain that our international operations will continue to be successful.

The Company is exposed to interest rate risk arising from fluctuations in interest rates on its drawings under its senior revolving credit facility. The exposure to floating rate debt has been mitigated by the Company's fixed rate senior subordinated notes. The senior subordinated notes are U.S. dollar denominated. The Company is authorized to enter into currency conversion and interest rate conversion agreements ("Swaps") to manage the interest rate and foreign currency risks associated with its debt. The Company does not engage in a speculative trading program.

The Company has prepared its financial statements in accordance with SOP 00-2, which requires that we amortize television and motion picture costs of production and acquisition using the individual film forecast method under which such costs are amortized for each film or television program in the ratio of revenue earned in the current period for such title to management's estimate of the total revenue to be realized from all media and markets for that title. Management regularly reviews and revises, when necessary, its total revenue estimates on a title-by-title basis, which may result in a change in the rate of amortization and/or a write-down of the film or television asset to net recoverable amount. Results of operations in future years are dependent upon the amortization of our film and television costs and may be significantly affected by periodic adjustments in amortization rates. The likelihood of our reporting losses is increased because this accounting method requires the immediate recognition of the entire loss in instances where it is expected that a motion picture or television program will not recover our investment in such production or acquisition. On the other hand, the profit of a successful motion picture or television program must be deferred and recognized over the entire revenue stream generated by the individual picture or television program, not exceeding 10 years. As a result, our financial results fluctuate from period to period. Estimated total production and acquisition costs for an individual motion picture or television program are amortized in the proportion that revenue relates to management's estimate of the total revenue in the forecast period, not exceeding 10 years, expected to be received from such motion picture or television program. As a result, if revenue estimates change with respect to a motion picture or television program, we may be required to write down all or a portion of the unamortized costs of such motion picture or television program. We cannot be certain that a write-down will not have a significant impact on our results of operations, prospects or financial condition.

MANAGEMENT'S REPORT

The accompanying financial statements and all information contained in this annual report of Alliance Atlantis Communications Inc. are the responsibility of Management and have been approved by the Board of Directors. Financial and operating data elsewhere in the annual report is consistent with the information contained in the financial statements. The financial statements and all other information have been prepared by Management in accordance with generally accepted accounting principles. The financial statements include some figures and assumptions based on Management's best estimates which have been derived with careful judgement.

In fulfilling its responsibilities, Management of the Company has developed and maintains a system of internal accounting controls. These controls ensure that the financial records are reliable for preparing the financial statements. The Board of Directors of the Company carries out its responsibility for the financial statements through its Audit Committee. The Audit Committee reviews the Company's annual consolidated financial statements and recommends their approval by the Board of Directors. The auditors have full access to the Audit Committee with and without Management present.

The financial statements have been audited by PricewaterhouseCoopers LLP Chartered Accountants, whose opinion is contained in this annual report.

Michael I. M. MacMillan
CHAIRMAN AND
CHIEF EXECUTIVE OFFICER

W. Judson Martin
EXECUTIVE VICE PRESIDENT AND
CHIEF FINANCIAL OFFICER

AUDITORS' REPORT

To the Shareholders of Alliance Atlantis Communications Inc. We have audited the consolidated balance sheets of Alliance Atlantis Communications Inc. as at March 31, 2002 and 2001 and the consolidated statements of earnings, retained earnings and cash flows for each of the years in the three-year period ended March 31, 2002. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at March 31, 2002 and 2001 and the results of its operations and its cash flows for each of the years in the three-year period ended March 31, 2002 in accordance with Canadian generally accepted accounting principles.

JUNE 7, 2002
TORONTO, CANADA

PricewaterhouseCoopers LLP
CHARTERED ACCOUNTANTS

CONSOLIDATED BALANCE SHEETS

ALLIANCE ATLANTIS COMMUNICATIONS INC.
AS AT MARCH 31,
(IN MILLIONS OF CANADIAN DOLLARS)

	2002	2001
Assets		
Cash and cash equivalents	**1.8**	–
Accounts receivable	**354.7**	461.1
Loans receivable	**10.0**	35.0
Investment in film and television programs (note 3):		
Broadcast Group	**132.0**	72.2
Motion Picture Distribution Group	**123.7**	220.6
Entertainment Group	**462.3**	537.3
Development costs	**30.4**	47.4
Property and equipment (note 4)	**91.0**	64.8
Broadcast licences	**110.4**	74.5
Goodwill	**152.5**	91.0
Investments (note 5)	**63.8**	65.3
Future income taxes (note 17)	**124.3**	42.8
Other assets (note 6)	**61.9**	56.9
	1,718.8	1,768.9
Liabilities		
Senior revolving credit facility (note 7)	**97.9**	73.9
Accounts payable and accrued liabilities	**443.5**	356.6
Income taxes payable	**33.9**	33.5
Deferred revenue	**32.7**	151.9
Term loans (note 8)	**31.7**	58.8
Senior subordinated notes (note 9)	**477.0**	474.0
Convertible debentures (note 12)	**8.8**	8.8
Minority interest	**18.2**	12.8
	1,143.7	1,170.3
Shareholders' equity		
Share capital (note 13)	**713.4**	525.3
Retained earnings (deficit) (note 2)	**(121.5)**	85.1
Cumulative translation adjustments (note 14)	**(16.8)**	(11.8)
	575.1	598.6
	1,718.8	1,768.9

COMMITMENTS AND CONTINGENCIES (NOTE 22)
THE ACCOMPANYING NOTES FORM AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS.

Approved by the Board of Directors



Michael I. M. MacMillan
DIRECTOR



Ellis Jacob
DIRECTOR

ALLIANCE ATLANTIS COMMUNICATIONS INC.
FOR THE YEARS ENDED MARCH 31,
(IN MILLIONS OF CANADIAN DOLLARS – EXCEPT PER SHARE AMOUNTS)

	2002	2001	2000
Revenue			
Broadcast Group – Operating Channels	**129.8**	109.5	93.4
Motion Picture Distribution Group	**318.0**	202.1	176.4
Entertainment Group	**487.3**	467.4	464.7
Other	**13.7**	22.0	37.1
	948.8	801.0	771.6
Broadcast Group – Developing Channels	**11.1**	5.1	–
	959.9	806.1	771.6
Direct operating expenses	**683.6**	580.3	592.4
Gross profit			
Broadcast Group – Operating Channels	**76.4**	63.4	53.5
Motion Picture Distribution Group	**68.9**	43.8	35.6
Entertainment Group	**114.4**	97.4	75.4
Other	**13.6**	21.2	14.7
	273.3	225.8	179.2
Broadcast Group – Developing Channels	**3.0**	–	–
	276.3	225.8	179.2
Operating expenses	**116.6**	92.2	73.0
Earnings (loss) before undernoted			
Broadcast Group – Operating Channels	**52.8**	46.2	29.7
Motion Picture Distribution Group	**51.5**	28.9	26.7
Entertainment Group	**89.9**	72.1	56.7
Other	**(17.5)**	(8.2)	(6.9)
	176.7	139.0	106.2
Broadcast Group – Developing Channels	**(17.0)**	(5.4)	–
	159.7	133.6	106.2
Amortization, including development costs charges	**22.8**	26.7	14.5
Interest, including amortization of interest previously capitalized (note 15)	**75.4**	61.6	36.3
Investment gains, net (note 16)	**(11.8)**	(5.9)	(2.5)
Equity losses in affiliates (note 5)	**11.1**	1.6	–
Minority interest	**2.3**	1.0	(0.5)
Restructuring charges (note 11)	**4.0**	–	–
Earnings before income taxes	**55.9**	48.6	58.4
Provision for income taxes (note 17)	**8.6**	13.6	19.3
Net earnings for the year	**47.3**	35.0	39.1
Dividends on Preferred Shares	**–**	–	(0.5)
Accretion of conversion feature of Preferred Shares	**–**	–	(1.6)
Net earnings available to Common Shareholders	**47.3**	35.0	37.0
Earnings per Common Share (note 19)			
Basic	**$ 1.20**	$ 1.10	$ 1.31
Diluted	**$ 1.19**	$ 1.09	$ 1.25
Weighted average Common Shares outstanding (millions)			
Basic	**39.6**	31.7	28.2
Diluted	**40.2**	32.3	30.4

THE ACCOMPANYING NOTES FORM AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS.

ALLIANCE ATLANTIS COMMUNICATIONS INC.
FOR THE YEARS ENDED MARCH 31,
(IN MILLIONS OF CANADIAN DOLLARS)

	2002	2001	2000
Retained earnings – beginning of year as previously reported (note 2)	**85.1**	50.1	13.1
Adjustment for adoption of new accounting pronouncement (note 2)	**(253.9)**	–	–
Retained earnings (deficit) – beginning of year, restated	**(168.8)**	50.1	13.1
Net earnings for the year	**47.3**	35.0	39.1
Dividends on Preferred Shares	**–**	–	(0.5)
Accretion of conversion feature of Preferred Shares	**–**	–	(1.6)
Retained earnings (deficit) – end of year	**(121.5)**	85.1	50.1

THE ACCOMPANYING NOTES FORM AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS.

ALLIANCE ATLANTIS COMMUNICATIONS INC.
FOR THE YEARS ENDED MARCH 31,
(IN MILLIONS OF CANADIAN DOLLARS)

	2002	2001	2000
Cash and cash equivalents provided by (used in)			
Operating activities			
Net earnings for the year	**47.3**	35.0	39.1
Items not affecting cash			
Amortization of film and television programs:			
Broadcast Group	**51.3**	46.0	39.6
Motion Picture Distribution Group	**111.7**	146.8	140.8
Entertainment Group	**355.2**	364.8	389.3
Development costs charges	**5.0**	–	–
Amortization of development costs	**–**	9.1	4.5
Amortization of property and equipment	**13.8**	11.3	7.7
Amortization of goodwill and broadcast licences	**–**	4.6	4.1
Amortization of other assets	**8.4**	7.3	1.4
Investment gains	**(11.8)**	(5.9)	(2.5)
Equity losses in affiliates	**11.1**	1.6	–
Minority interest	**2.3**	1.0	(0.5)
Future income taxes	**(8.7)**	(15.2)	12.5
Investment in film and television programs:			
Broadcast Group	**(112.4)**	(73.7)	(43.5)
Motion Picture Distribution Group	**(148.2)**	(201.6)	(180.8)
Entertainment Group	**(446.0)**	(445.6)	(396.4)
Development costs	**(19.9)**	(25.5)	(11.8)
Net changes in other non-cash balances related to operations (note 20)	**83.3**	80.1	(77.8)
	(57.6)	(59.9)	(74.3)
Investing activities			
Loans receivable	**16.0**	(7.8)	12.7
Property and equipment	**(35.1)**	(22.0)	(19.8)
Business acquisitions (note 10)	**(44.9)**	(6.6)	(1.9)
Minority interest in acquired businesses	**11.5**	3.0	1.2
Long-term investments	**(4.3)**	(23.2)	(37.1)
Proceeds from sale of investments	**0.1**	8.3	11.2
	(56.7)	(48.3)	(33.7)
Financing activities			
Senior revolving credit facility	**24.0**	(114.6)	(251.6)
Term loans	**(38.5)**	(3.5)	4.5
Issue of senior subordinated notes	**–**	222.7	219.5
Redemption of Preferred Shares	**–**	–	(51.9)
Issue of share capital	**130.6**	2.5	132.5
Dividends paid on Preferred Shares	**–**	–	(0.5)
	116.1	107.1	52.5
Change in cash and cash equivalents	**1.8**	(1.1)	(55.5)
Cash and cash equivalents – beginning of year	**–**	1.0	56.9
Effect of exchange rates on cash	**–**	0.1	(0.4)
Cash and cash equivalents – end of year	**1.8**	–	1.0

THE ACCOMPANYING NOTES FORM AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS.

The Company is a vertically integrated Canadian broadcaster, creator and international distributor of filmed entertainment content, with significant ownership, either wholly or in part, of eighteen complementary specialty television channels. As described in note 23, the Company's principal business activities are carried out through three Operating Groups: the Broadcast Group, the Motion Picture Distribution Group and the Entertainment Group.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Generally accepted accounting principles These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles.

Principles of consolidation The consolidated financial statements include the accounts of Alliance Atlantis Communications Inc. and all of its subsidiaries with provision for minority interests, and its proportionate share of assets, liabilities, revenues and expenses for jointly controlled companies.

Revenue recognition Revenue from the licencing of film and television programs is recognized when:
(a) the Company has persuasive evidence of a contractual arrangement;
(b) the production has been completed;
(c) the contractual delivery arrangements have been satisfied;
(d) the licencing period has commenced;
(e) the fee is fixed or determinable; and
(f) collectibility of proceeds is reasonably assured.

Revenue from the theatrical release of motion pictures is recognized at the time of exhibition, based on the Company's participation in box office receipts provided that all of the foregoing conditions are met.

Revenue from the sale of videocassettes and digital video disks ("DVDs") is recognized on delivery provided that all of the foregoing conditions are met. An appropriate provision is made for product returns and rebates.

The Company recognizes as revenue the fees and commissions from sales of limited partnerships when the investor has irrevocably committed to acquire the related equity.

Fees related to origination of loans to producers, including loan restructuring or renegotiating, are recognized as revenue over the expected term of the loan.

Subscriber fee revenue from the Company's specialty television channels is accrued as earned on a monthly basis. Advertising revenue is recognized when advertisements are aired.

Cash payments received or advances currently due pursuant to a contractual arrangement are recorded as deferred revenue until all of the foregoing conditions of revenue recognition have been met.

Cash equivalents Cash equivalents consist of credit worthy, money market investments with initial maturity terms of 90 days or less, which are carried at the lower of cost and fair market value.

Loans receivable Loans receivable are stated net of unearned income and an allowance for estimated credit losses. The Company conducts ongoing credit assessments of its loan portfolio on an account-by-account basis and establishes specific allowances when doubtful accounts are identified.

Investment in film and television programs Investment in film and television programs represents the unamortized costs of film and television programs which have been produced by the Company or for which the Company has acquired distribution rights. Investment in film and television programs also includes film and television programs in progress, acquired film and television program libraries and broadcast rights.

Costs of acquiring and producing film and television programs are capitalized and amortized using the individual film forecast method, whereby capitalized costs are amortized and ultimate participation costs are accrued in the proportion that current revenue bears to management's estimate of ultimate revenue expected to be recognized from the exploitation, exhibition or licencing of the film or television program. For acquired film and television program titles, capitalized costs consist of minimum guarantee payments to the producer to acquire the distribution rights. For film and television programs produced by the Company, capitalized costs include all production and financing costs incurred during production that are expected to benefit future periods and be recovered from estimated future revenue, net of estimated future liabilities. For episodic television series, until estimates of secondary market revenue can be established, capitalized costs for each episode produced are limited to the amount of revenue contracted for each episode. Costs in excess of this limitation are expensed as incurred on an episode-by-episode basis.

Film and television programs in progress represent the accumulated costs of productions which have not been completed by the Company.

For films other than episodic television series and acquired libraries, ultimate revenue includes estimates over a period not to exceed ten years following the date of initial release. For episodic television series, ultimate revenue includes estimates of revenue over a period not to exceed ten years from the date of delivery of the first episode or, if still in production, five years from the date of delivery of the most recent episode, if later. For previously released film or television programs acquired as part of a library, ultimate revenue includes estimates over a period not to exceed twenty years from the date of acquisition.

Revenue estimates are prepared on a title-by-title basis and are reviewed periodically based on current market conditions. For film, revenue estimates include the Company's box office receipts, sale of videocassettes and DVDs, licencing of television broadcasting rights and licencing of other ancillary film rights to third parties. For television programs, revenue estimates include licenced rights to broadcast television programs in development or rights to renew licences for episodic television programs in subsequent seasons. Ultimate revenue includes estimates of secondary market revenue for produced episodes only when the Company can demonstrate through its experience or industry norms that the number of episodes already produced, plus those for which a firm commitment exists and the Company expects to deliver, can be licenced successfully in the secondary market. As a consequence of changes in management's future revenue estimates amortization charges in future periods may be affected. In the current year, the effect of significant changes in management's future revenue estimates increased net income by $6.4 and basic earnings per common share by $0.16.

The valuation of investment in film and television programs, including acquired film libraries, is reviewed on a title-by-title basis. When an event or change in circumstances indicates that the fair value of a film or television program is less than its unamortized cost, the fair value of the film or television program is determined using management's future revenue estimates and a discounted cash flow approach. A write-down is recorded equivalent to the amount by which the unamortized costs exceeds the estimated fair value of the film or television program.

Prints, advertising and marketing expenses The cost of film prints is deferred under investment in film and television programs and charged to earnings on a straight-line basis over the period of theatrical release. The costs of advertising and marketing are expensed as incurred.

Broadcast rights Broadcast rights included within investment in film and television programs represent contract rights acquired for broadcast on the Company's specialty television channels. Broadcast rights and corresponding liabilities are recorded when the licence period begins and the program is available for telecast.

The cost of the broadcast rights is amortized over the contracted exhibition period, not to exceed four years, beginning in the month the film or television program is premiered based on the estimated useful life of the program to the Company, as follows:

(a) where the initial airing generates more benefit to the television channel than later airings, an accelerated method of amortization is used. The amortization rates range from 27% to 100% in the first year to up to 22% in the fourth year;
(b) the straight-line method of amortization is used if each airing is expected to generate similar benefit; and
(c) where the later airings generate more benefit to the television channel than the initial airing, an accelerating method of amortization is used. The amortization rates range from 10% to 100% in the first year to up to 40% in the fourth year.

Development costs Development costs include costs of acquiring film rights to books, stage plays or original screenplays and costs to adapt such projects. Such costs are capitalized and, upon commencement of production, are added to investment in film and television programs. Advances or contributions received from third parties to assist in development are deducted from these costs. Projects in development are written off at the earlier of the date determined not to be recoverable or when projects under development are abandoned, and three years from the date of the initial investment.

Property and equipment Property and equipment are carried at cost less accumulated amortization. Amortization is provided, commencing in the year after acquisition, using the following rates and methods:

Building	5% by declining balance
Furniture and other equipment	20%–30% by declining balance
Computer equipment	30% by declining balance
Leasehold improvements	straight-line over the lease term plus one renewal period
Broadcasting equipment	straight-line over five years

Broadcast licences In business acquisitions involving the Company's Broadcast Group, fair value is assigned to the broadcast licences acquired. In cases where a broadcast licence is awarded to the Company, the costs incurred to obtain approval from regulatory authorities are assigned to the broadcast licences upon securing the licence. Broadcast licences are not subject to amortization and are tested for impairment annually, or more frequently if events or circumstances indicate that the asset might be impaired. Impairment is tested by comparing the fair value of the broadcast licence to its carrying value.

Goodwill Goodwill represents the cost of acquired businesses in excess of the fair value of net identifiable assets acquired. Goodwill is not subject to amortization and is tested for impairment annually, or more frequently if events or circumstances indicate that the asset might be impaired. Impairment is tested by comparing the fair value of goodwill assigned to a particular reporting unit to its carrying value.

Investments Investments are accounted for at cost when the conditions for equity accounting are not present and on the equity basis when significant influence exists. Declines in market values of investments are expensed when such declines are considered to be other than temporary.

Other assets Other assets include deferred financing charges which are amortized on a straight-line basis over the term of each respective debt instrument and unrealized gains and losses arising from the translation of long-term monetary assets and liabilities. Unrealized gains and losses are deferred and amortized on a straight-line basis over the remaining life of the related asset or liability. Other assets also include costs to obtain approval and gain carriage for the new digital broadcast channels and a franchise asset. These costs are amortized over the term of the underlying agreement. The costs to obtain approval for specialty broadcast licences are transferred to broadcast licences upon regulatory approval.

Government financing and assistance The Company has access to several government programs that are designed to assist film and television production and distribution in Canada. Amounts receivable in respect of production assistance are recorded as revenue when persuasive evidence of an arrangement exists, the production is completed and available for delivery, the amount is fixed or determinable and collection of the amount is reasonably assured. Government assistance with respect to distribution rights is recorded as a reduction of investment in film and television programs. Government assistance towards current expenses is included in net earnings for the year.

Income taxes Future income taxes are provided for using the liability method. Under the liability method, future income taxes are recognized for the expected future income tax consequences of all significant temporary differences between the tax and financial statement bases of assets and liabilities.

Future income tax assets are recognized only to the extent that, in the opinion of Management, it is more likely than not that the future income tax assets will be realized. Future income tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of the enactment or substantive enactment.

Foreign currency Assets and liabilities denominated in currencies other than Canadian dollars are translated at exchange rates in effect at the balance sheet date. Revenue and expense items are translated at average rates of exchange for the year. Translation gains or losses are included in the determination of earnings except for gains or losses arising on the translation of the accounts of the foreign subsidiaries considered to be self-sustaining, which are recorded as a separate component of shareholders' equity, and except for hedges as described in the following paragraph.

Gains or losses on foreign currency balances or transactions that are designated as hedges of a net investment in self-sustaining foreign operations are offset against exchange losses or gains included in the separate item under shareholders' equity.

Transaction gains and losses are included in income except for unrealized gains and losses arising from the translation of long-term monetary assets and liabilities, which are deferred and amortized on a straight-line basis over the remaining life of the related items. (See note 26.)

Derivative financial instruments The Company enters into foreign exchange contracts intended to hedge its estimated net foreign currency cash requirements, and certain significant transactions, generally over the ensuing twelve to eighteen months. The Company does not engage in a speculative trading program. All foreign exchange contracts are included in the measurement of the related transactions, when they occur. (See note 26.)

Stock-based compensation plan The Company has stock-based compensation plans, which are described in note 13 (f). No compensation expense is recognized for these plans when stock options are issued to employees. Any consideration paid by employees on exercise of stock options is credited to share capital. If stock options are repurchased from employees, the excess of the consideration paid over the carrying amount of the stock option cancelled is charged to retained earnings. (See note 26.)

Use of estimates The preparation of financial statements in conformity with generally accepted accounting principles requires Management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Comparative amounts Certain amounts presented for the years ended March 31, 2001 and 2000 have been reclassified to reflect the internal reorganization of the Operating Groups in January 2002, and to conform to the presentation adopted in 2002.

2. ACCOUNTING CHANGES

Accounting for film and television programs In June 2000, the Accounting Standards Executive Committee of the American Institute of Certified Public Accountants issued Statement of Position 00-2 "Accounting by Producers or Distributors of Films" ("SOP 00-2"). SOP 00-2 establishes new accounting standards for producers or distributors of films, including changes in revenue recognition, capitalization and amortization of costs of films and television programs and accounting for development, overhead and other exploitation costs, including advertising and marketing expenses.

The Company has retroactively adopted SOP 00-2 effective as of April 1, 2001. Prior years' financial statements have not been restated, as the effect of the new policy on prior periods was not reasonably determinable. Accordingly, opening retained earnings for the year ended March 31, 2002 was reduced to reflect the cumulative effect of the accounting change in the amount of $253.9 (net of income taxes of $79.9).

The principal changes as a result of applying SOP 00-2 are as follows:

Cash outflows incurred to acquire, produce and develop film and television programs, which were previously presented under investing activities in the consolidated statement of cash flows, are presented under cash flows from operating activities.

Advertising and marketing costs, which were previously capitalized to investment in film and television programs and amortized using the individual film forecast method, are now expensed as incurred. This change resulted in a reduction of investment in film and television programs and retained earnings of $156.4.

The capitalization of production costs for episodic television series is limited to contracted-for revenue on an episode-by-episode basis until the criteria for recognizing secondary market revenues are met. This change resulted in a reduction of investment in film and television programs and retained earnings of $51.7.

Acquired libraries are defined to include titles released at least three years prior to the date of acquisition and ultimate revenues used to amortize these assets include estimates over a period not to exceed twenty years from the date of acquisition. The remaining acquired titles are accounted for using the individual film forecast method from the date of acquisition. This change resulted in a reduction of investment in film and television programs and retained earnings of $19.2.

The valuation of investment in film and television programs is reviewed on a title-by-title basis, when an event or change in circumstances indicates that the fair value of a film or television program is less than its unamortized cost. The fair value of the film or television program, previously determined using an undiscounted expected future revenue approach, is now determined using Management's future revenue estimates and a discounted cash flow approach. A write-down is recorded equivalent to the amount by which the unamortized costs exceeds the estimated fair value of the film or television program. This change resulted in a reduction of retained earnings of $68.2, a reduction of investment in film and television programs of $68.8 and a reduction of minority interest of $0.6.

Revenue relating to certain arrangements whereby the agreement did not expressly establish contractual delivery arrangements, such as actual physical delivery, the granting of access to a lab, or notice of delivery, must be deferred until such time as physical delivery occurs. In certain instances where all other revenue recognition criteria had been met and the broadcaster was provided with notice of delivery or lab access, the revenue must now be deferred until such time as physical delivery has occurred. This resulted in a reduction of retained earnings of $6.4, an increase in deferred revenue of $30.6 and an increase in investment in film and television programs of $24.2.

Development costs, which were previously deferred and amortized over three years from the year after incurred, are written off at the earlier of the date determined not to be recoverable or when projects under development are abandoned, and three years from the date of the initial investment. This change resulted in a reduction of development costs and retained earnings of $31.9.

Previously, where an arrangement for the distribution, exploitation, or exhibition of a title was established and revenue was not recognized, the Company recorded an account receivable and an equivalent liability for deferred revenue until such time as all of the conditions to recognize revenue were met. Amounts scheduled to be received by the Company in the future, pursuant to such an arrangement, are no longer recognized as a receivable prior to the time those amounts are presently due or are recognized as revenue. This change resulted in a reduction of accounts receivable and deferred revenue of $85.5.

The effect of the change in accounting policy on the Company's net earnings and earnings per common share for the current year is not readily determinable.

Goodwill and other intangible assets On April 1, 2001, the Company adopted the new standard issued by the CICA, Section 3062, "Goodwill and Other Intangible Assets." Previously, the Company amortized goodwill on a straight-line basis over periods of up to 40 years and broadcast licences on a straight-line basis over a period of 40 years. Based on the new standard, goodwill and broadcast licences are no longer amortized and are tested for impairment annually, or more frequently if impairment indicators arise, to determine if an impairment loss should be recognized. The following is the pro forma effect had years ended March 31, 2001 and March 31, 2000 been subject to the new accounting policy:

	2001	2000
Reported net earnings:	35.0	39.1
Amortization of goodwill	2.7	2.2
Amortization of broadcast licences	1.9	1.9
Adjusted net earnings	39.6	43.2
Basic earnings per share:	1.10	1.31
Amortization of goodwill	0.08	0.08
Amortization of broadcast licences	0.06	0.07
Adjusted net earnings	1.24	1.46
Diluted earnings per share:	1.09	1.25
Amortization of goodwill	0.08	0.07
Amortization of broadcast licences	0.06	0.06
Adjusted net earnings	1.23	1.38

Earnings per share Effective April 1, 2001, the Company adopted the revised CICA Handbook Section 3500, "Earnings per Share." As a result of adopting this Section, the Company now uses the treasury stock method to calculate diluted earnings per share. The adoption of this Section has been applied retroactively; however, it had no impact on the diluted earnings per share for the years ended March 31, 2001 and March 31, 2000. (See note 19.)

3. INVESTMENT IN FILM AND TELEVISION PROGRAMS

2002	BROADCAST GROUP	MOTION PICTURE DISTRIBUTION GROUP	ENTERTAINMENT GROUP
Theatrical films			
Released, net of accumulated amortization	**–**	**101.3**	**60.4**
Completed and not released	**–**	**22.4**	**31.0**
Programs in progress	**–**	**–**	**20.2**
Non-theatrical films and television programs			
Released, net of accumulated amortization	**–**	**–**	**308.8**
Acquired library, net of accumulated amortization	**–**	**–**	**20.5**
Programs in progress	**–**	**–**	**21.4**
Broadcast rights, net of accumulated amortization	**132.0**	**–**	**–**
	132.0	**123.7**	**462.3**
2001			
Theatrical films			
Released, net of accumulated amortization	–	202.6	61.1
Completed and not released	–	18.0	9.6
Programs in progress	–	–	44.6
Non-theatrical films and television programs			
Released, net of accumulated amortization	–	–	306.7
Acquired library, net of accumulated amortization	–	–	38.6
Programs in progress	–	–	76.7
Broadcast rights, net of accumulated amortization	72.2	–	–
	72.2	220.6	537.3

Included in the Motion Picture Distribution Group's Released investment in film and television programs is $4.1 (2001 – $6.1) of video and DVD inventory.

The Company earns revenue from film and television programs which have been fully amortized and are not reflected on the balance sheet.

The Company expects that 40% of released film and television programs produced and 50% of the costs related to film and television programs acquired, net of amortization, will be amortized during the year ending March 31, 2003. The Company expects that 70% of released film and television programs produced and 77% of the costs related to film and television programs acquired, net of amortization, will be amortized during the three-year period ending March 31, 2005. The Company expects that over 80% of the amounts of all such programming will be amortized by March 31, 2006.

The Company expects that $30.5 of accrued participation liabilities will be paid during the year ended March 31, 2003.

The remaining period of amortization for the Acquired Library at March 31, 2002 is 18 years.

4. PROPERTY AND EQUIPMENT

	2002		2001	
	COST	ACCUMULATED AMORTIZATION	COST	ACCUMULATED AMORTIZATION
Land	**1.0**	**–**	0.8	–
Buildings	**5.3**	**1.9**	3.5	1.6
Furniture and other equipment	**37.4**	**17.7**	27.6	11.6
Computer equipment	**36.1**	**20.3**	29.2	15.7
Leasehold improvements	**49.0**	**11.9**	33.5	8.5
Broadcast equipment	**21.8**	**7.8**	13.6	6.0
	150.6	**59.6**	108.2	43.4
Net book value		**91.0**		64.8

5. INVESTMENTS

	2002	2001
Long-term investments, at cost	**32.9**	34.6
Long-term investments on equity basis	**30.9**	30.7
	63.8	65.3

During the year, the Company acquired interests in two digital television channels, One: The Body, Mind and Spirit Channel (29.9%) and Scream (49%). The investments are accounted for using the equity method.

During the year, the Company's interest in Headline Media Group decreased from 39% to 33% due to third-party investments in Headline Media Group. The investment continues to be accounted for using the equity method. (See note 16.)

6. OTHER ASSETS

	2002	2001
Deferred financing costs and foreign exchange (net of accumulated amortization of $18.2 (2001 – $12.4))	**42.2**	44.5
Broadcast licence development costs	**–**	3.6
Other Broadcast intangible assets (net of accumulated amortization of $1.3 (2000 – nil))	**11.4**	–
Prepaid expenses and other	**8.3**	8.8
	61.9	56.9

Deferred financing costs include costs incurred in the issuance of the senior subordinated notes and the senior revolving credit facility. These costs are amortized over the term of the debt with which they are associated. Deferred foreign exchange represents the unrealized revaluation of U.S. dollar denominated senior subordinated notes. (See note 9.) The unrealized exchange losses are being amortized over the term of the senior subordinated notes.

Costs to obtain approval from the CRTC in respect of new digital broadcast licences are deferred until such time as the licence has been secured. During the year, $2.7 (2001 – $3.6) of these costs were incurred which were transferred to broadcast licences upon the licences being secured by the Company.

Other Broadcast intangible assets represent direct costs incurred to obtain carriage for the digital broadcast channels launched in fiscal 2002 and costs to obtain access to franchises and to develop brands for certain branded television channels. These costs are amortized over the term of the underlying agreements, which range from three to seven years. Total expended during the year on such costs was $12.7 which was primarily financed by long-term liabilities as shown in note 24 (a).

7. SENIOR REVOLVING CREDIT FACILITY

	2002	2001
Senior revolving credit facility – authorized	**525.0**	525.0
Senior revolving credit facility – drawn	**97.9**	73.9

The senior revolving credit facility provides up to $500.0 in borrowings bearing interest at rates ranging from the Bankers' Acceptance rate and LIBO rate plus 0.75% to plus 3.0%, and the Canadian prime rate and the U.S. base rate plus up to 1.75%. The facility is due in full in January 2006. In addition, a revolving swing line facility, due on demand, provides up to $25.0 in borrowings bearing interest at rates noted above.

Substantially all of the assets of the Company and certain of its subsidiaries have been pledged as security for borrowings under the senior revolving credit facility.

As at March 31, 2002, the Company had unused credit facilities aggregating $427.1 (2001 – $451.1) excluding the outstanding letters of credit of $65.4 (2001 – $46.1). (See note 22 (c).)

The availability of the senior revolving credit facility is subject to the Company's maintaining interest and consolidated indebtedness coverage ratios.

8. TERM LOANS

	2002	2001
Limited-recourse term loans bearing interest at rates between the commercial prime rate plus 0.75% to plus 0.88%	**7.4**	28.8
Mortgages payable, collateralized by certain property, bearing interest at 7.13%, 9.99% and the commercial prime rates plus 3%, repayable over terms extending to October 15, 2005	**2.9**	2.7
Industry and other term loans which are unsecured and have no fixed terms of repayment, bearing interest at various rates	**15.9**	20.1
Obligations under capital lease	**5.5**	7.2
	31.7	58.8

The availability of the limited-recourse term loans is subject to the Company's maintaining asset, interest and indebtedness coverage ratios related to one of its subsidiaries. Assets with a carrying value of $18.5 have been pledged as security for borrowing under the term loans.

Required principal repayments are as follows:

2003	19.8
2004	10.7
2005	1.2
2006	–
2007	–
Due subsequent	–
	31.7

9. SENIOR SUBORDINATED NOTES

On November 15, 1999, the Company issued US$150.0 senior subordinated notes bearing interest at 13% per year and maturing on December 15, 2009. Interest is payable semi-annually on June 15 and December 15. The notes are redeemable at the option of the Company, in whole or in part, at any time on or after December 15, 2004 at specified redemption rates ranging from 106.5% of the principal amount at December 15, 2004 to 100% of the principal amount after December 15, 2007, plus accrued and unpaid interest. The Company may be required to redeem the notes at up to 101% of the principal plus accrued interest in the event of a change in control. In addition, up to 35% of the notes are subject to redemption, at the Company's option, prior to December 15, 2002, in the event that the Company issues Common Shares. The notes are subordinated to all indebtedness of the Company and all debt and liabilities of the Company's subsidiaries, including trade payables. The Company received proceeds of $210.9, net of $8.6 of expenses which were included in deferred charges. (See note 6.)

On June 13, 2000 and January 25, 2001, the Company issued an additional US$55.0 and US$95.0 senior subordinated notes, respectively. The US$95.0 issuance was issued at a 1% discount. The notes carry the same terms and conditions as the senior subordinated notes issued on November 15, 1999. The Company received total proceeds of $212.6 from these transactions net of $10.1 of expenses and discount which were included in deferred charges. (See note 6.)

10. BUSINESS ACQUISITIONS

(a) During fiscal 2002, the following acquisitions were completed:

In April 2001, the Company purchased 100% of the issued and outstanding shares of Salter Street Films Limited (Salter Street), a Nova Scotia-based entertainment company that develops, produces and distributes original film and television programming as well as Internet products and services. Total consideration of $85.3 was in the form of 2,684,622 Class B Non-Voting Shares, 355,714 Class B Non-Voting stock options (converted from 663,050 unexercised Salter Street options), and $23.4 in cash, including $3.0 in cash expenses and net of $4.1 in cash acquired. The acquisition has been accounted for under the purchase method and the results of operations have been included in the consolidated statement of earnings from the date of acquisition. The Salter Street transaction resulted in goodwill of $61.6 and broadcast licences of $11.0.

The purchase consideration was allocated as follows:

	SALTER STREET
Cash	4.1
Accounts receivable	30.8
Investment in film and television programs	15.2
Property and equipment	4.9
Goodwill	61.6
Broadcast licences	11.0
Future income taxes	3.0
Other assets	2.4
	133.0
Liabilities assumed	47.7
Net assets acquired	85.3

In January 2002, the Company acquired the remaining 12% minority interest in History Television Inc. and reacquired an option to purchase a 1% interest in History Television Inc. for total cash consideration of $21.5. These transactions have been accounted for by the purchase method and have resulted in an increase to broadcast licences of $18.6. The remaining $2.9 was allocated to the net assets previously held by the minority interest. The Company continues to refine the purchase equation for the acquisition of the remaining interest of History Television Inc. with respect to the values assigned to identifiable assets. As a result of this transaction, History Television Inc. is now a wholly owned subsidiary. (See note 25 (a).)

(b) During fiscal 2001, the following acquisitions were completed:

In June 2000, the Company purchased 100% of the outstanding shares of Tattersall Sound Inc. (Tattersall) in exchange for 100,000 Class B Non-Voting Shares valued at approximately $1.6. The acquisition has been accounted for under the purchase method and the results of operations of the acquired company have been included in the consolidated statement of earnings from the date of acquisition. The Tattersall transaction resulted in goodwill of $1.4.

In June 2000, the Company purchased the remaining 61% of the outstanding shares of Great North Communications Ltd. (Great North), an Alberta-based producer and distributor of factual programming, in exchange for cash of $6.1. The acquisition has been accounted for as a step acquisition and the results of operations of the acquired company have been included in the consolidated statement of earnings from the date of acquisition of the remaining interest. The Great North transaction resulted in goodwill of $9.4.

In February 2001, the Company purchased 100% of the outstanding shares of Café Productions Limited (Café), a U.K.-based producer of factual programming, in exchange for the assumption of debt of $2.8. The acquisition has been accounted for under the purchase method and the results of operations of the acquired company have been included in the consolidated statement of earnings from the date of acquisition. The Café transaction resulted in goodwill of $2.8.

In September 2000, the Company purchased the remaining 25% minority interest in Odeon Films Inc. for cash consideration of $0.9. The acquisition has been accounted for by the purchase method.

The purchase consideration for each acquisition was allocated as follows:

	TATTERSALL	GREAT NORTH	CAFÉ
Cash	0.2	0.2	–
Accounts receivable	0.2	13.6	–
Investment in film and television programs	–	10.6	–
Development costs	–	0.3	–
Property and equipment	0.2	0.2	–
Goodwill and other assets	1.4	9.6	2.8
	2.0	34.5	2.8
Liabilities assumed	0.4	28.4	2.8
Net assets acquired	1.6	6.1	–

(c) During fiscal 2000, the following acquisitions were completed:

In May 1999, the Company purchased the remaining 1% minority interest in Showcase Television in exchange for 24,514 Class B Non-Voting Shares. The acquisition has been accounted for by the purchase method and has resulted in an increase to goodwill of $0.5.

In March 2000, the Company purchased the 50% minority interest in Calibre Digital Pictures for cash consideration of $1.0. The acquisition has been accounted for by the purchase method and has resulted in an increase to goodwill of $0.7.

As a result of the above transactions, both companies are now wholly owned subsidiaries.

11. RESTRUCTURING CHARGES

In January 2002, the Company completed a consolidation of its existing television production and distribution activities with its in-house motion picture production and related distribution activities, into a new Operating Group called the Entertainment Group. The Company incurred $4.0 million in cash expenses including $3.9 in employee severance costs and $0.1 in professional fees related to the elimination of 80 positions. As at March 31, 2002, the Company had paid approximately $2.3 of the $4.0 cash expenses. Amounts unpaid of $1.7 at March 31, 2002 were related to severance costs.

12. CONVERTIBLE DEBENTURES

The debentures are unsecured, subordinated and convertible, at the option of the holder, into Class A Voting Shares of the Company at a conversion price of $19 per share. On October 28, 1999, the debentures also became redeemable at the option of the Company, provided certain conditions are met, at the issue price, together with accrued and unpaid interest to the date of redemption. As at March 31, 2002, the above conditions were not met. The Company had the option to pay for the redemption of the debentures by issuing its own Common Shares to the debenture holder at a price equal to 90% of the weighted average trading price of the Common Shares for the last 20 consecutive trading days prior to redemption or the maturity date. The debentures bore interest at 6.5% per year and matured on April 5, 2002. (See note 27.)

13. SHARE CAPITAL

(a) The authorized share capital of the Company consists of Common Shares comprised of:

Class A Voting Shares	– unlimited
Class B Non-Voting Shares	– unlimited

The Class A Voting Shares and the Class B Non-Voting Shares have identical attributes except that the Class B Non-Voting Shares are non-voting and each of the Class A Voting Shares is convertible at any time at the holder's option into one fully paid and non-assessable Class B Non-Voting Share. The Class B Non-Voting Shares may be converted into Class A Voting Shares only in certain circumstances. The Class C Special Voting Shares were convertible at any time, at the holder's option, and automatically on September 21, 2001 into 20 fully paid and non-assessable Class B Non-Voting Shares.

(b) During fiscal 2002, the following transactions occurred:

In April 2001, the Company issued 2,684,622 Class B Non-Voting Shares in connection with the acquisition of Salter Street Films Limited.

In August 2001, 8,000,000 Class B Non-Voting Shares were issued pursuant to a public offering for proceeds of $128.6, net of $9.8 in issue costs.

On September 21, 2001, each of the Class C Special Voting Shares was converted into 20 fully paid and non-assessable Class B Non-Voting Shares.

During fiscal 2002, 31,500 Class A Voting Shares with paid in value of $0.5 were converted into 31,500 Class B Non-Voting Shares. In addition, 200 Class A Voting Shares and 207,458 Class B Non-Voting Shares were issued under the Company's stock option plans, employee share purchase plan and Directors' and Officers' alternate compensation plan for cash of $2.0.

(c) During fiscal 2001, the following transactions occurred:

In June 2000, 100,000 Class B Non-Voting shares were issued in connection with the acquisition of Tattersall Sound Inc. valued at $1.6.

In January 2001, the Class D Special Non-Voting Share was converted into one Class B Non-Voting Share.

During fiscal 2001, 1,038,350 Class A Voting Shares and 60,035 Class C Special Voting Shares with paid in value of $14.5 and $30.9 respectively were converted into 2,239,047 Class B Non-Voting Shares. In addition, 6,500 Class A Voting Shares and 165,270 Class B Non-Voting Shares were issued under the Company's stock option plans, employee share purchase plan and Director's and Officer's alternate compensation plan for cash of $2.5.

(d) During fiscal 2000, the following transactions occurred:

In May 1999, 24,514 Class B Non-Voting Shares were issued in exchange for a 1% ownership interest in one of the Company's subsidiaries.

In October 1999, 6,276,317 Class B Non-Voting Shares and one Class D Special Non-Voting Share were issued in a private placement transaction for proceeds of $131.1, net of issue expenses.

In September 1999, the Company redeemed 100% of the issued Preferred Shares for cash proceeds of $51.9.

During fiscal 2000, 208,850 Class A Voting Shares and 1,879 Class C Special Voting Shares were converted into 246,427 Class B Non-Voting Shares. In addition, 5,642 Class A Voting Shares and 111,940 Class B Non-Voting Shares were issued under the Company's stock option plans, employee share purchase plan and Director's and Officer's alternate compensation plan for cash of $1.5.

(e) As a result, the issued capital stock is as follows:

	2002	2001
Class A Voting Shares, 3,775,152 (2001 – 3,806,452)	**52.7**	53.2
Class B Non-Voting Shares, 38,872,416 (2001 – 27,888,342)	**660.7**	470.5
Class C Special Voting Shares, nil (2001 – 3,025)	**–**	1.6
	713.4	525.3

(f) The Company has Employee Stock Option Plans which provide for the issuance of up to 20,812 Class A Voting Shares and 4,861,265 Class B Non-Voting Shares. These options generally vest in equal annual amounts over four to five years. No options are exercisable for periods of more than ten years after date of grant. Options granted under the plans may not have an option price less than the closing market price of the Class B Non-Voting Shares on the last trading date preceding the date of the grant. Stock option activity for 2000, 2001 and 2002 is as follows:

	NUMBER OF OPTIONS			WEIGHTED AVERAGE
	VOTING	NON-VOTING	TOTAL	EXERCISE PRICE
Outstanding at March 31, 1999	90,144	2,458,061	2,548,205	23.90
Granted	–	464,250	464,250	18.60
Exercised	(5,642)	(102,576)	(108,218)	13.46
Converted	(57,802)	57,802	–	–
Forfeited	–	(278,650)	(278,650)	25.95
Cancelled	–	(108,442)	(108,442)	21.18
Outstanding at March 31, 2000	26,700	2,490,445	2,517,145	23.50
Granted	–	510,500	510,500	20.43
Exercised	(5,563)	(165,582)	(171,145)	14.49
Forfeited	(125)	(290,459)	(290,584)	24.86
Expired	–	(9,175)	(9,175)	20.19
Outstanding at March 31, 2001	21,012	2,535,729	2,556,741	23.31
Granted	–	984,319	984,319	15.30
Exercised	(2,300)	(204,982)	(207,282)	10.61
Forfeited	–	(437,725)	(437,725)	25.32
Expired	–	(43,500)	(43,500)	14.79
Outstanding at March 31, 2002	**18,712**	**2,833,841**	**2,852,553**	**21.27**
Exercisable at March 31, 2002	**18,712**	**1,659,273**	**1,677,985**	**22.75**
Exercisable at March 31, 2001	21,012	1,618,173	1,639,185	23.87
Exercisable at March 31, 2000	26,700	1,526,680	1,555,478	22.83

At March 31, 2002, 2,852,553 options were outstanding with exercise prices ranging from $5.16 to $32.00 and with a weighted average remaining contractual life of 6.70 years. The options are distributed by exercise price as follows:

RANGE OF EXERCISE PRICES	NUMBER OF OPTIONS	WEIGHTED AVERAGE CONTRACTUAL LIFE	WEIGHTED AVERAGE EXERCISE PRICE
$5.16 to 12.00	96,059	5.76	9.87
$12.01 to 18.00	754,094	8.14	15.25
$18.01 to 27.00	1,844,150	6.48	23.59
$27.01 to 32.00	158,250	2.98	29.80

RANGE OF EXERCISE PRICES	NUMBER OF EXERCISABLE OPTIONS	WEIGHTED AVERAGE EXERCISE PRICE
$5.16 to 12.00	96,059	9.87
$12.01 to 18.00	258,191	14.95
$18.01 to 27.00	1,165,485	24.58
$27.01 to 32.00	158,250	29.80

14. CUMULATIVE TRANSLATION ADJUSTMENTS

An analysis of the cumulative translation adjustments shown separately in shareholders' equity is as follows:

	2002	2001
Balance at beginning of year	**(11.8)**	0.2
Effect of exchange rate variation on translation of net assets of self-sustaining foreign operations	**(3.5)**	7.5
Effect of exchange rate variation on translation of items designated as hedges of net investments in self-sustaining foreign operations	**(1.5)**	(19.5)
Balance at end of year	**(16.8)**	(11.8)

15. INTEREST

	2002	2001	2000
Senior revolving credit facility	**14.6**	21.9	29.2
Term loans	**6.6**	3.4	3.2
Senior subordinated notes	**60.6**	41.5	10.8
Convertible debentures	**0.6**	0.6	0.6
Interest income	**(1.3)**	(1.5)	(4.4)
Interest capitalized during the year	**(19.0)**	(22.7)	(22.0)
Amortization of interest previously capitalized	**8.9**	12.8	15.7
	71.0	56.0	33.1
Amortization of deferred financing costs	**4.4**	5.6	3.2
	75.4	61.6	36.3

The weighted average interest rate for the year ended March 31, 2002 was 11.1% (2001 – 11.0%; 2000 – 9.0%).

During the year ended March 31, 2002, the Company paid interest of $79.6 (2001 – $61.4; 2000 – $33.4).

16. INVESTMENT GAINS, NET

(a) During the year ended March 31, 2002, the following transactions occurred:

In April 2001, the Company's interest in Headline Media Group Inc. was reduced from 39% to 33% due to third-party investments in Headline Media Group, resulting in a gain on dilution of $6.4.

In March 2002, the Company sold its interest in a life insurance company for cash proceeds of $0.4. The shares had been received through the demutualization of its life insurance company and resulted in a pre-tax gain of $0.4.

In March 2002, the Company sold its 50% interest in one of its joint ventures for consideration of $3.0 and realized a pre-tax gain on sale of $0.9. The consideration was in the form of a promissory note to be settled through the receipt of eight equal installments of $0.4 plus accrued interest between June 2002 and March 2004. Net assets of the joint venture at the time of sale included $0.3 in cash.

During the year, the Company's interest in Discovery Health Channel was reduced from 100% to 65% as a result of cash investments by the minority interest partner, resulting in a gain on dilution of $5.1.

During the year, the Company recorded an impairment loss of $1.0 on one of its investments.

(b) During the year ended March 31, 2001, the following transactions occurred:

The Company sold its interest in one of its investments for cash proceeds of $8.3, realizing a net pre-tax gain on sale of $3.3.

In November 2000, the Company's interest in Headline Media Group Inc. was reduced from 48% to 39% due to third-party investments in Headline Media Group, resulting in a gain on dilution of $0.8 on the Company's investment. In March 2001, the Company transferred its interest in Pride Vision Inc. to Headline Media Group Inc. in exchange for 593,882 Class A Subordinate Voting Shares of Headline Media Group Inc. and recorded a gain of $1.8.

(c) During the year ended March 31, 2000, the Company sold a portion of its interest in ExtendMedia and its entire investment in TMP (The Music Publisher) and Les Productions la Fête Inc. for total proceeds of $11.2, realizing a net pre-tax gain on sale of $2.5.

17. INCOME TAXES

The differences between the effective tax rate reflected in the provision for income taxes and the Canadian statutory income tax rate are as follows:

%	**2002**	2001	2000
Corporate statutory rate of income tax	**40.9**	43.3	44.6
Adjusted for the effect of:			
Foreign operations subject to different income tax rates	**(22.7)**	(19.0)	(18.2)
Expenses not deductible/(income not taxable) for income tax purposes	**(5.1)**	1.7	1.2
Change in tax rate for future income taxes	**2.9**	(1.8)	–
Other	**(0.6)**	3.8	5.5
	15.4	28.0	33.1

The temporary differences which give rise to future tax assets and liabilities at March 31 consist of the following:

	2002	2001
Future income tax assets:		
Property and equipment	**3.2**	0.6
Loss carryforwards	**96.2**	19.6
Investment in film and television programs	**47.5**	44.7
All other	**8.8**	5.3
	155.7	70.2
Future income tax liabilities:		
Broadcast licences	**16.2**	19.5
Capitalized interest	**8.8**	5.8
All other	**6.4**	2.1
	31.4	27.4
Net future income taxes	**124.3**	42.8

The Company has Canadian income tax losses available for carry forward which expire as follows:

2003	–
2004	0.6
2005	5.2
2006	1.2
2007	5.4
2008	26.6
2009	262.2
	301.2

The Company also has income tax losses available for carry forward in the United Kingdom totalling $18.5 (2001 – nil). These losses can be carried forward indefinitely but can only be used to offset profits from the same business. Management reduced the future income tax asset with a valuation allowance of $14.2 (2001 – nil) as it is more likely than not that some portion of the asset will not be realized.

The provision for (recovery of) income taxes is comprised of:

	2002	2001	2000
Current income taxes	**2.3**	28.8	6.8
Future income taxes	**6.3**	(15.2)	12.5
	8.6	13.6	19.3

During the year ended March 31, 2002, the Company paid income taxes of $18.4 (2001 – $16.7; 2000 – $11.5).

18. JOINT VENTURES

The Company has investments in joint ventures for jointly controlled enterprises in certain broadcast businesses and the structured filmed entertainment financing business. The joint ventures are reflected in the consolidated financial statements using the proportionate consolidation method.

The Company's proportionate share of the total assets, liabilities and results of operations of the joint ventures for the years ended March 31, 2002, 2001 and 2000 are as follows:

	2002	2001	2000
Assets	**55.0**	45.3	13.7
Liabilities	**34.9**	26.2	11.6
Revenue	**21.8**	28.2	2.3
Direct operating expenses	**4.2**	4.6	0.4
Operating expenses	**6.8**	6.6	3.3
Amortization, interest and income taxes	**5.1**	8.7	(0.2)
Net income	**5.7**	8.3	(1.2)
Cash flow from operating activities	**(5.9)**	2.7	(2.4)
Cash flow from investing activities	**–**	(10.6)	(7.1)
Cash flow from financing activities	**(0.3)**	3.4	2.1

19. EARNINGS PER SHARE

	2002	2001	2000
Numerator for basic earnings per share:			
Net earnings for the period	**47.3**	35.0	39.1
Dividends on Preferred Shares	**–**	–	(0.5)
Accretion of conversion feature of Preferred Shares	**–**	–	(1.6)
	47.3	35.0	37.0
Denominator used for basic earnings per share:	**39.6**	31.7	28.2
Basic earnings per share	**$1.20**	$1.10	$1.31
Numerator for diluted earnings per share:			
Earnings used in computing basic earnings per share	**47.3**	35.0	37.0
Imputed interest on convertible debentures	**0.4**	0.4	0.4
Dividends on Preferred Shares	**–**	–	0.5
Earnings used in computing diluted earnings per share	**47.7**	35.4	37.9
Denominator for diluted earnings per share:			
Weighted average number of shares	**39.6**	31.7	28.2
Convertible debentures	**0.5**	0.5	0.5
Stock options	**0.1**	0.1	0.1
Preferred Shares	**–**	–	0.8
Warrant	**–**	–	0.8
Shares used in computing diluted earnings per share	**40.2**	32.3	30.4
Diluted earnings per share	**$1.19**	$1.09	$1.25

20. STATEMENT OF CASH FLOWS

	2002	2001	2000
Change in			
Accounts receivable	**51.2**	29.8	(7.2)
Accounts payable and accrued liabilities	**103.8**	15.8	(17.0)
Deferred revenue	**(67.9)**	45.6	(50.7)
Income taxes payable	**13.7**	27.1	24.7
Other assets	**(17.5)**	(38.2)	(27.6)
Net change in other non-cash balances related to operations	**83.3**	80.1	(77.8)

21. GOVERNMENT FINANCING AND ASSISTANCE

Revenue includes $15.5 of production financing obtained from government agencies for the year ended March 31, 2002 (2001 – $18.8; 2000 – $21.1). This financing is related to equity participation by government agencies and is repayable from distribution revenue of the specific productions for which the financing was made. The maximum amount repayable over the six-year period of forecast revenue for amortization purposes is estimated to be $5.4. In addition, revenue includes $9.2 (2001 – $15.6; 2000 – $20.8) of government grants and $40.5 (2001 – $51.4; 2000 – $57.4) of tax credits relating to production activities. Government grants and tax credits are not repayable.

Investment in film and television programs includes a reduction of $19.9 (2001 – $19.6; 2000 – $9.1) with respect to government assistance for distribution of certain programs. Government assistance may be repayable in whole or in part depending upon future revenue generated by certain individual film and television programs. The maximum amount repayable over the four-year period of forecast revenue for amortization purposes is estimated to be $8.8. In addition, net earnings includes $0.9 (2001 – $1.3; 2000 – $0.4) of government grants relating to distribution activities which are not repayable.

22. COMMITMENTS AND CONTINGENCIES

(a) The Company is committed with respect to operating leases for office premises and equipment expiring at various dates to January 2008. The future minimum payments under the terms of such leases are as follows:

2003	15.4
2004	14.8
2005	14.2
2006	10.7
2007	4.1
Due subsequent	9.2
	68.4

Rent expense for fiscal 2002 is $12.4 (2001 – $8.6; 2000 – $5.5).

(b) The Company is involved in various legal actions. In the opinion of Management, any resulting liability is not expected to have a material adverse effect on the Company's financial position.

(c) The Company has letters of credit aggregating $65.4 outstanding at March 31, 2002 (2001 – $46.1; 2000 – $28.4).

(d) The Company has entered into various foreign exchange forward contracts to buy U.S. dollars at various rates and increments aggregating US$0.2 (2001 – buy AUS$21.1; 2000 – buy US$5.0, sell US$1.4). The contracts mature at various dates up to June 2002. The unrealized gains and losses arising from these contracts are not significant.

(e) The Company has entered into various agreements for the right to broadcast or distribute certain films and television programs in the future. These agreements, which range in term from one to five years, generally commit the Company to acquire specific films and television programs or certain levels of future productions. The acquisition of these broadcast and distribution rights is contingent on the actual production and/or the airing of the films and television programs. Management estimates that these agreements will result in future program and film expenditures of approximately $111.0 million.

(f) In September 1998, the Company agreed to finance up to $100.0 of production costs over the next five years for feature films in exchange for the worldwide distribution rights. For the period from September 1998 to March 31, 2002, the Company had provided funding totalling $39.5, including letters of credit of $28.1 at March 31, 2002, for projects with principal photography scheduled to commence in fiscal 2003.

(g) The Company has entered into various sale-leaseback arrangements associated with the financing of certain film and television programs. As a result of these arrangements the Company has guaranteed the payment of total lease obligations amounting to $63.3. The guaranteed obligations are financed by $42.3 of funds held in escrow for the benefit of counterparties to these obligations. All funds held in escrow have been invested primarily in long-term interest bearing deposits. Such funds are expected to be sufficient to discharge the related lease obligations.

13 SEGMENTED INFORMATION

The Company's principal business activities are conducted through three reportable segments: Broadcast, Motion Picture Distribution and Entertainment. The Broadcast Group consists of the Company's specialty television channels which include lifestyle, drama and documentary programming. The Motion Picture Distribution Group includes the acquisition, distribution and financing of motion pictures. The Entertainment Group is involved in the development, production, acquisition and distribution of in-house motion pictures, primetime television drama, children's and documentary programming. Other activities are primarily comprised of the structured filmed entertainment financing business and corporate functions.

Management focuses on and measures the results of operations based on the earnings before undernoted, as presented on the Company's consolidated statements of earnings, provided by each business segment. As the results of operations by segment are presented on the Consolidated Statements of Earnings, the information is not repeated in this note. As shown on the Consolidated Statements of Earnings, the Company's revenue, gross profit and earnings before undernoted related to the Broadcast Group are reported with a distinction between the Company's Operating Channels and Developing Channels. The Company's specialty television channels are transferred from Developing Channels status to Operating Channels status at the earliest of (a) two years from the date of launch of the service, (b) when Management's predetermined subscriber level has been attained, or (c) the net earnings break-even point for the new business has been attained. Management has not presented the Broadcast Group's total assets or additions to property and equipment and goodwill using the same distinction as many of these assets are commonly used by both groups of channels. As a result, the following table shows these amounts for the Broadcast Group as a whole.

(a) Information on the reportable operating segments is as follows:

	BROADCAST GROUP	MOTION PICTURE DISTRIBUTION GROUP	ENTERTAINMENT GROUP	OTHER	TOTAL
2002					
Goodwill	**40.9**	**2.0**	**109.6**	**–**	**152.5**
Total assets	**367.5**	**235.1**	**952.7**	**163.5**	**1,718.8**
Additions to property and equipment	**25.0**	**1.0**	**2.7**	**6.4**	**35.1**
Additions to goodwill	**39.8**	**2.0**	**19.8**	**–**	**61.6**
2001					
Goodwill	1.1	–	89.9	–	91.0
Total assets	193.3	319.1	1,014.1	242.4	1,768.9
Additions to property and equipment	9.7	1.1	5.7	5.5	22.0
Additions to goodwill	–	–	13.6	–	13.6
2000					
Goodwill	1.1	–	78.9	–	80.0
Total assets	141.8	256.5	851.4	180.7	1,430.4
Additions to property and equipment	5.3	7.3	1.3	5.9	19.8
Additions to goodwill	0.5	–	0.7	–	1.2

Segment revenues, as shown on the Consolidated Statements of Earnings, are net of intersegment sales of programming of $17.0 from the Motion Picture Distribution Group to the Broadcast Group and $4.1 from the Entertainment Group to the Broadcast Group.

(b) Geographic information, based on customer location, is as follows:

	2002	2001	2000
Revenue			
Canadian	**562.3**	461.9	443.2
U.S.	**194.2**	193.7	103.7
Other foreign	**203.4**	150.5	224.7
Total	**959.9**	806.1	771.6

All of the Company's broadcast licences and goodwill, and the majority of the Company's property and equipment, are in Canada.

24. FINANCIAL INSTRUMENTS

(a) Fair values of financial instruments The estimated fair values of financial instruments as at March 31, 2002 and March 31, 2001 are based on relevant market prices and information available at the time. The carrying values of cash and cash equivalents, loans receivable, long-term investments, senior revolving credit facility, accounts payable and accrued liabilities and term loans approximate the fair values of these financial instruments. Financial instruments with carrying values different from their fair values include:

	2002		2001	
	CARRYING VALUE	**FAIR VALUE**	CARRYING VALUE	FAIR VALUE
Financial assets				
Accounts receivable	**354.7**	**352.6**	461.1	460.0
Financial liabilities				
Senior subordinated notes	**477.0**	**536.6**	474.0	510.1
Convertible debentures	**8.8**	**8.8**	8.8	9.5

The fair value of accounts receivable is based on discounting future cash flows using rates currently available for similar instruments. The Company has not written these receivables down as it expects to recover their carrying amounts fully by holding them to maturity. At March 31, 2002, the fair value of the convertible debentures was equal to the carrying value due to the short-term nature of the debt. At March 31, 2001 the fair value of the convertible debentures was based on the difference between the conversion price and the closing stock price of the Company at March 31, 2001.

Included in accounts payable and accrued liabilities is US$35.2 (2001 – US$17.4) of production financing and $10.8 of long-term liabilities pertaining to the acquisition of certain broadcast intangible assets. The non-interest bearing financing amounts are unsecured and repayable in installments over the period from fiscal 2003 to fiscal 2008, with interest imputed at 13%, and are recorded at fair value. During the year the Company recorded imputed interest of $3.4 (2001 – $0.8). The Company expects these liabilities to be repaid as follows:

2003	47.5
2004	18.6
2005	2.7
2006	2.0
2007	2.0
Due subsequent	1.0
	73.8

(b) Concentration of credit risk Accounts receivable from the Canadian federal government and other government agencies in connection with production financing represents 27% (2001 – 19%) of total accounts receivable at March 31, 2002. The Company believes that there is minimal risk associated with the collection of these amounts. The balance of accounts receivable and distribution contracts receivable is widely distributed amongst customers. Loans receivable include amounts due from a relatively small number of customers. The Company maintains an allowance of $13.1 (2001 – $9.9) for potential credit losses.

25. RELATED PARTY TRANSACTIONS

(a) In January 2002, the Company reacquired an option to purchase a 1% interest in History Television Inc. from a senior officer of the Company for cash of $1.5. The exchange amount was based on the equivalent amount to that paid to a third party for the minority interest.

(b) During the year, in the normal course of business, the Company sold broadcast rights to equity accounted investees totalling $0.5 (2001 – nil). At March 31, 2002, the amount due from these related parties was $0.3 (2001 – nil).

(c) In the normal course of business, the Company acquires broadcast rights from minority interests who exert significant influence over subsidiaries of the Company. During the year, these purchases totalled $7.2 (2001 – 2.4). At March 31, 2002, the amount due to these related parties was $5.5 (2001 – 2.4).

(d) The Company has entered into trademark and franchise payment agreements with minority interests who exert significant influence over subsidiaries of the Company. During the year, the Company paid $1.5 (2001 – $0.3) related to such agreements. At March 31, 2002, the amount due to these related parties was $11.3 of which $7.8 is included in the long-term liabilities pertaining to certain broadcast intangible assets described in note 24 (a).

(e) At March 31, 2002, the Company had a loan receivable of $8.2 (2001 – nil) due from a minority interest that exerts significant influence over a subsidiary of the Company.

(f) Loans of $2.2 at March 31, 2002 (2001 – $1.7) are due from senior officers. The loans are repayable on demand and bear interest at the Corporation's cost of borrowing.

26. RECENT ACCOUNTING PRONOUNCEMENTS

Stock-based compensation and other stock-based payments In 2001, the CICA issued Handbook Section 3870, effective for fiscal years beginning on or after January 1, 2002. This pronouncement establishes a new standard for the recognition, measurement and disclosure of stock-based compensation and other stock-based payments made in exchange for goods and services provided to a company by both employees and non-employees.

The standard requires that, for all stock-based payments to non-employees and to employees where the stock-based awards call for settlement in cash or other assets, including stock appreciation rights, a compensation expense be recognized in the statement of earnings, determined using a fair value based method of accounting. The standard is effective for the Company's fiscal year beginning April 1, 2002 and is applied to stock-based awards granted on or after that date.

Had the Company adopted the new standard on April 1, 2001, there would have been no impact on the Company's fiscal 2002 net earnings or earnings per share as the Company had already included the compensation costs associated with such payments and awards in its statement of earnings.

Additionally, for stock options granted to its employees, the new standard permits the Company to continue its existing policy of recognizing no compensation expense if the Company chooses the disclosure-only method of adoption. Consideration paid by employees on the exercise of stock options is recorded as an increase in the Company's cash and share capital accounts.

Had the Company adopted the new standard on April 1, 2001, and had the Company chosen to recognize an expense related to the grant of stock options to its employees, the impact on net earnings and basic and diluted earnings per share of the Company would have been a decrease of $1.6 and $0.04, respectively. These effects may not be representative of future amounts since the estimated fair value of stock options on the date of grant is measured over the vesting period and additional options may be granted in future years.

Foreign currency translation and hedging relationships In 2001, the CICA amended Section 1650 to eliminate the deferral and amortization of foreign currency translation gains and losses on long-lived monetary items. At March 31, 2002 the Company had $12.0 of unamortized foreign exchange losses related to the revaluation of U.S. denominated senior subordinated notes that will be affected by the change. On adoption of the Section, the Company's other assets will be reduced by $12.0, with a corresponding reduction in opening retained earnings of $8.4 and an increase in future income taxes of $3.6 as of April 1, 2002. In addition, the Section requires restatement of prior periods. Accordingly, for the purposes of comparative figures in fiscal 2003, the Company's net earnings for the years ended March 31, 2002 and March 31, 2001 will be reduced by $0.3 and $8.1, respectively. The CICA also approved Accounting Guideline AcG-13, which establishes the criteria for identification and documentation of hedging relationships, effective for the Company's 2003 fiscal year. The Company plans to comply with the requirements of AcG-13, such that all of its current hedges will continue to qualify for hedge accounting.

27. SUBSEQUENT EVENTS

In April 2002, the convertible debentures matured and were settled with a cash payment of $8.8 plus accrued interest.

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Corporate Director
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Partner, Torys LLP
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Allen Karp

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Human Resources and Corporate Governance Committee

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Chief Executive Officer

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Broadcast Group

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Broadcast Group

Motion Picture Distribution Group

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Chief Executive Officer
Motion Picture Distribution Group

Patrice Théroux
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Motion Picture Distribution Group

Entertainment Group

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ANNUAL MEETING

September 25, 2002
10:00 a.m. ET
The Design Exchange
234 Bay Street
Toronto-Dominion Centre
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